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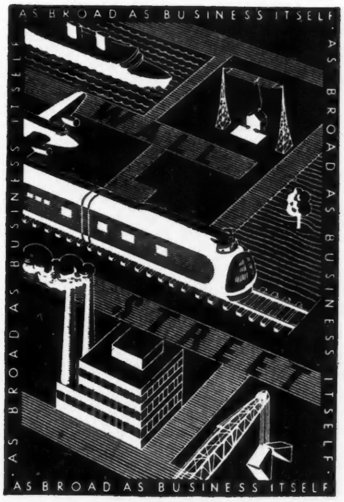
Gendrea

The completion of the first Transcontinental Railroad, the joining of the Eastern and Western Sections of the Union Pacific at Ogden, Utah, 1869. The growth of capital during the Civil War provided the funds and required this outlet for the Nation's expanding industries. By developing a farm empire along its route, making mine resources available and the opening of distribution channels on the Pacific Coast, the railroad soon paid for its cost. **See p. 64.**

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* | Laurence Stern, *Managing Editor*



The Trend of Events

TAX ACTION IN SIGHT . . . Less than a month ago the issue of "pay-go" tax collection was returned to the Ways and Means Committee for indefinite burial after all compromise proposals had been rejected by the House. But it could not be buried. The sheer logic of the Ruml concept — as the pressure of public opinion working in its behalf—proved overwhelming. As this is written, two revised "pay-go" tax proposals are nearing House consideration.

The dispute has shifted from the principle of "forgiving" 1942 tax debt, to the mere question of *how much* shall be "forgiven." This is both a tactical retreat by the opponents of the Ruml Plan and a tacit admission that the demogogic arguments so loudly voiced against it were unfounded. If it is valid principle to abate 50 per cent of income tax liability for 1942, it is valid principle to wipe out the whole bookkeeping liability and move the tax clock ahead. The Congressional Republicans—and a minority of Democrats—who are holding out for additional concessions from the anti-Ruml forces should continue to fight. They have the popular side of the issue — also the right side — and a strategic advantage for that reason.

Since the public's 1943 and 1944 income will be substantially higher than in 1942, the reform will automatically increase Treasury revenue for the next fiscal year by several billion dollars. If it is followed up by even a moderate increase in tax rates, plus a Federal sales or spendings tax, a goodly part —possibly a major part—of the $16,000,000,000 of added revenue asked by the President in his budget message in January could be realized. On any other basis the "inflation gap" will widen further, as output of consumer goods shrinks while consumer income remains at its present unprecedented level or even increases further; and the problem of economic stabilization will become increasingly difficult to solve. Those who imagine it has been fully solved by the President's "hold-the-line" order are dreaming.

THE CITY REBUILT FROM WITHIN . . . The Metropolitan Life Insurance Company's project for the tearing down of the worst slum area in the heart of New York's East Side and replacing it by a garden development of 18 city blocks, opens a fascinating prospect for rebuilding after the war. Hitherto the development of cities has been outwards, building operations sinuously following the new transport routes. Cities have died at the heart. Whole areas of Manhattan Island and Chicago, especially those surrounding central business areas, are derelict. These areas have the largest number of tax defaults,

Business, Financial *and* Investment Counselors : 1907—"*Over Thirty-Five Years of Service*"—1943

and produce continuing deficits for their owners.

In Europe, the London County Council, in Rotterdam and in Dusseldorf the local councils, have rebuilt slum areas into beautiful civic developments. Now New York appears to be ready to follow suit. These new building developments call for no added strain on utilities or transportation: in fact, by moving workers from the periphery to the center, they probably reduce the call on transportation services. The areas along the East River of New York are capable of excellent parking and promenade developments. The old antithesis of country and city is to be reduced.

Large areas, that produce no taxes, will become productive. The city is to have the right of eminent domain over unwilling sellers of these wretched properties and the expectation is that they will do better on that condemnation valuation than they could in a non-existent market. The rise in land values in these newly built areas, even after granting a tax exemption for several years to the new builders, will ultimately be of great benefit to the cities that pursue this far-seeing policy.

If these developments are well-aired, architecturally handsome (and the Metropolitan Life project is excellently conceived) and provide that grass and garden space without which man ought not to live, then the time saved the tired worker by nearness to work, also helps his strength and gives him precious air and light, and ultimately aids the national productivity. From the investor viewpoint, this transformation of the blighted areas, is a new witness of the possibilities inherent in a building revival. Until now this has been based on the knowledge of arrears in domestic building: now the actual reshaping of urban centers is added. The possibilities of the building industries are greatly assisted, especially as war has made us accustomed to think of large settlement planning. The age of the eyesore is over in factory and home alike.

PATRIOTISM IS FISCAL SANITY . . . Much as we rejoice in the almost certain oversubscription to the April War Bond Drive, the comparative neglect of the E, F and G series by small investors is a much more serious defect in war financing than the amount suggests. The small individual investor has bought 400 millions out of a quota of 800 millions. This may appear of small moment in a 17 billion anticipated subscription, but the implications, once understood, would result in a rush of small subscriptions.

The individual feels that it is not up to him to subscribe because, he reasons, I have deposited my money with a savings or commercial bank, or paid my insurance premium, so that the national savings are channeled into large corporate reservoirs. From this pool of savings, the Government can draw upon the excess income of the people. This superficial reasoning is fallacious on every count.

The object of the Treasury is not to tap savings after they have been made, so much as to see that at the very source, that is at the payroll and the retail cash box, as much as can possibly be spared from irreducible personal needs is diverted into war bonds. The Treasury seeks a billion a month, or twelve billions per annum. In asking for this sum from small bond subscriptions, it does not begin to call on that excess of income which has been created by the war. Its demands are not merely moderate, they are modest. And, apart from war needs, they are made in strict equity. Surely that income which war creates should be the income from which war is financed.

If this sum is not forthcoming, that is, if small bond subscriptions fall behind, as they do now, at the rate of over seven billions a year, then the Government has only two basic alternatives. It can command forced savings and forced subscriptions to Government bonds from those compulsory savings deductions, as is already the case in New Zealand, or, and this is more likely, it may double the burden of taxation. In the latter case, the individual suffers a total deduction of funds from his present income, and has no stake in the future, nor has he future income.

It is hard to see why a man confronted with losing x dollars forever by taxation would choose that rather than saving x dollars and getting his interest in addition. If the feeble United States, of Revolutionary days, new-born and poor, raised its credit under Hamilton to be the first in the world, surely every American can understand what an advantage it is for him to profit by that liberty and prosperity our present efforts are creating.

CHANGE THE LAW . . . In California the Federal Department of Justice obtained anti-trust indictments against seventy-eight persons—labor unions and building contractors — on the allegation that they had conspired to restrain trade by barring the use of spray guns on painting jobs. It has, of course, long been the policy of A. F. of L. building craft unions to refuse to permit use of labor-saving devices. For instance, one make-work rule enforced by many local unions of painters is to limit the width of paint brushes.

Economically, this policy has always been indefensible. In time of war and acute labor shortages, it is scarcely less than criminal. Yet under existing law, these latest indictments were promptly dismissed by a Federal District Judge at San Francisco.

Obviously, there is only one remedy available. Congress should adopt legislation outlawing make-work union rules which either interfere with interstate commerce or tend to restrain trade. Monopolistic practices by trade unions are no more defensible than monopolistic practices by corporations. The archaic work rules of the building unions have long been a handicap on private construction. To break this grip once and for all would be an important contribution to the cause of post-war economic expansion.

As I See It! BY CHARLES BENEDICT

THE COMMUNIST PARTY AND AMERICAN LABOR

In my last editorial I called attention to labor's swing away from leftism, as a result of the disillusionment in high places over the execution of Erlich and Alter which has developed into a cause célèbre. In fact so strong has this trend become that the communists, greatly alarmed by its power and significance, are apparently seeking to wrest control from important labor leaders who, thoroughly aroused by the liquidation of the two liberal Polish laborites, have been extremely vocal in their denunciation.

Starting right at the top with David Dubinsky and Sidney Hillman, two of the most powerful and influential moderates in labor, there is accumulating evidence that an attempt is being made to shift the balance of power to a leftist group who will be more amenable to the plans of the communist faction.

As we know, for a long time there has been a dangerous infiltration of leftist revolutionaries in American labor, whose evident intention is to transform our government into a totalitarian state patterned on the Russian model. The Internationale has taken advantage of our admiration and sympathy for the Russian people to spread their doctrine, and openly advocate communism.

Americans have every reason to be disturbed by the efforts of the Internationale in this country, coming at a time when Russia is moving toward a vast expansion of her political power, while at the same time she is planning for an industrial supremacy which would place in her hands a means for destroying the democratic system of free enterprise. By flooding the world with her goods at prices with which the United States could not compete because of high-cost labor, Russia can create the economic instability which is bound to produce fertile soil for communism. The industrialization developed to fight the war against Germany has given the Soviets the potential wherewithal and the opportunity to carry out this long-deferred plan. American labor has nothing to gain from it. The utopian promises of the Internationale are a snare and a delusion, for the Russian experiment in Communism was a complete and utter failure.

While uninformed opinion in America is unaware of this, the Russians know it full well.

So-called communism today does not at all follow along the dreams of Lenin which were theoretically inspiring but practically unworkable. At no time was there a division of land for the peasants any more than there was a higher standard of living for the working man. Instead of uplifting the millions it disorganized and enslaved them under a despotic dictatorship.

The Russian experiment, which was designed to produce a world proletarian control, has become instead a laboratory for working out the methods by which a few can control (*Please turn to page* **108**)

Sovfoto

Soviet army might on parade in Red Square in Moscow during Mayday celebrations.

Gauging Market's Next Move

Strong demand for common stocks has continued to confound the skeptics, as the record-breaking supply of investible funds presses for employment. Without some unpredictable news shock, we think reactions will be moderate and grudging and we therefore favor selective purchases.

BY A. T. MILLER

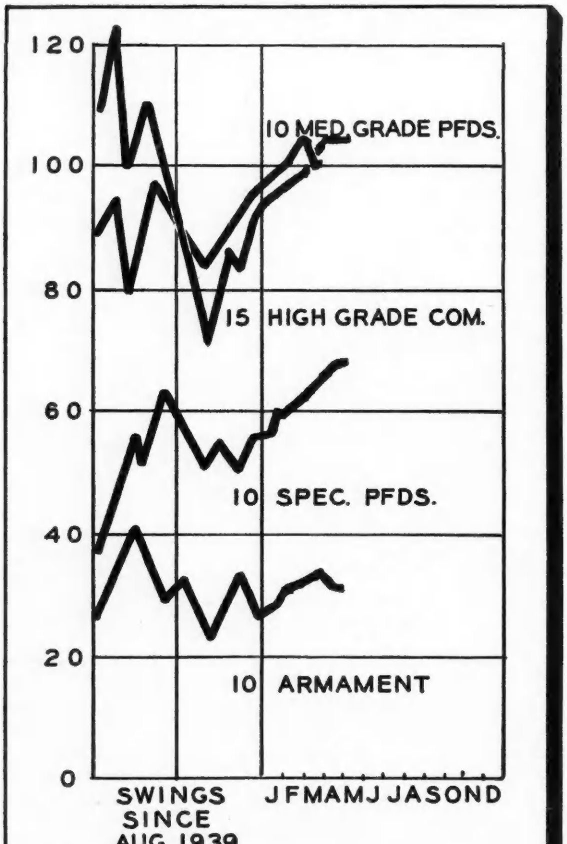
Summary of the Fortnight: Behind the deceptive facade of apathy in the majority of so-called leading stocks—which in reality have for many months been behind the parade—the bull market in low-price stocks went merrily on its way. Our index of 100 *low-price issues advanced 7.75 points to a decisive new recovery high; while most professional analysts, with eyes only for the Dow industrial average, welcomed the "corrective pause" in the market!*

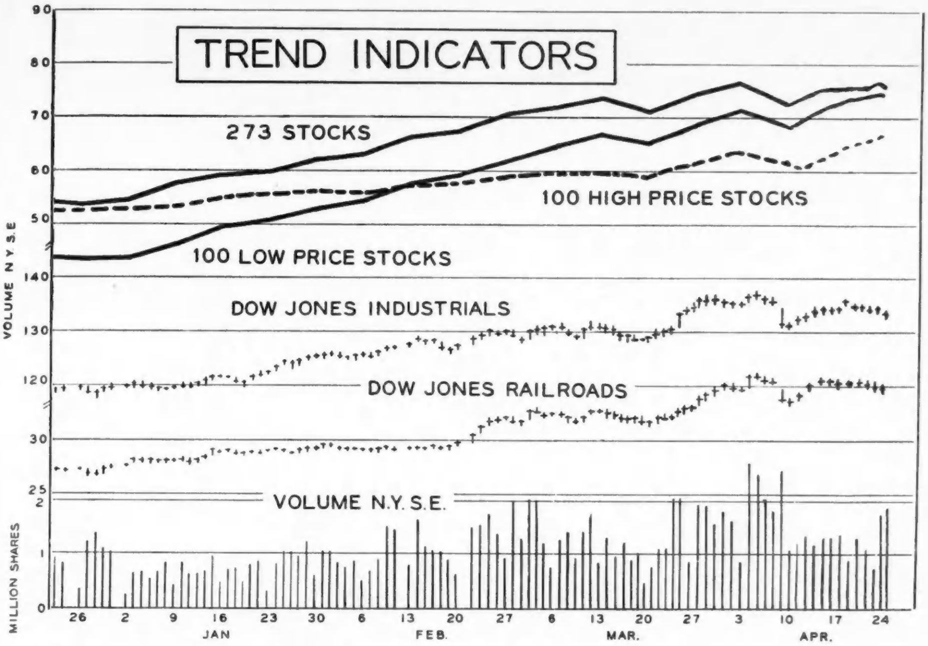
THIS analysis is written on Monday morning, the time at which the published observations of financial commentators in the newspapers have to do mainly with what the market did last week. It is curious—but not surprising—to note the unanimity with which they agree that the recent market was "dominated by the war financing" . . . that "reduced volume indicated trading caution" . . . that "change in the price averages was small."

All of this is true, so far as it goes. Those who made these observations were looking at the market in terms of the Dow-Jones industrial average, or the New York *Times* average or the *Herald-Tribune* average. In the past these selected averages of "representative" stocks have usually pictured the action of the market with adequate fidelity, which is why so many traders and investors are habituated to study of their "indications." Today, however, these widely used averages are not telling the real story of the market; and because that is something new—or abnormal—it merits more than casual consideration. On general principle, abnormality in the stock market is open to suspicion unless one can discover some fundamental basis for the change.

In effect, we have two bull markets—a slow bull market in the better quality stocks and a remarkably fast bull market in low-price stocks. This divergence is a phenomenon which has developed only this year. On the eight-months 1942 rise from the bear market low of late April, our index of 100 low-price stocks moved in fairly close alignment with the Dow industrial average. It moved sidewise with "the Dow" for some ten weeks last July-September. It reacted with the other averages from the early November recovery high into December.

But this year from the start the low-price section of the market took the bit in its teeth. By April 3, the index of 100 low-price stocks had reached 73.34, a gain of about 70 per cent in four months since Dec. 31. Despite that fast rise, which would normally be presumed to establish a vulnerable technical condition, the reaction which followed issuance of the President's "hold the line" anti-inflation order was confined to one week and put the low-price index down only 3.55 points or about 5 per cent. In the following week this loss was not only made up but the index set a new recovery high at 74.62; and last week another rise of 2.92 points was added, establishing new bull market high of 77.54, nearly 6 per cent above the April 3 high—while over the same period slow rally in averages heavily





loaded with higher-price and medium-price issues did not succeed in even closely approaching the previous highs.

Due primarily to the strength in low-price issues, our composite weekly index of 273 stocks—which we calculate to reflect some 80 per cent of Stock Exchange transactions—has also pushed on to a new high at 80.4, comparing with previous double-top of 78.5 established in the weeks ended April 3 and 17.

Here are the net changes for 1943 to date: Magazine of Wall Street index of 100 low-price stocks, up about 90 per cent; Magazine of Wall Street index of 273 stocks, up 47 per cent; Magazine of Wall Street index of 100 high-price stocks, up 18 per cent; Dow industrial average, up 13 per cent; Dow rail average, up 28 per cent; Dow utility average, up 35 per cent.

What we have seen in recent months, and are seeing now, is somewhat reminiscent of the final four months of the 1935-1937 bull market, during which the index of 100 low-price stocks advanced about four and one-half times as much, from the end of November, 1936, to the March, 1937, high, as did our index of 100 high-price stocks. This year to date the performance of the low-price index has not been quite that extreme—only four times more advance than the index of 100 high-price stocks!

On the other hand, low priced stocks were more extremely depressed at the 1942 lows than higher quality issues, which tended as usual to magnify the percentage rise. As compared with the 1937 highs—and assuming that at some indefinite time in the future they will be equalled or bettered—the long-term potentiality from here on would seem to be about 50-50 as between the low-price section and the higher-price section. That is, the low-price index is now 58.93 points below its 1937 high and the index of 100 high-price stocks 55.62 below its 1937 high. Against this reasoning the following factors, generally supporting demand for low or moderate-price stocks, should be considered:

(1) The supply of surplus funds available for speculative-investment is far bigger than in 1936-1937 and the largest increment is in the hands of people who characteristically lean to lower-price stocks.

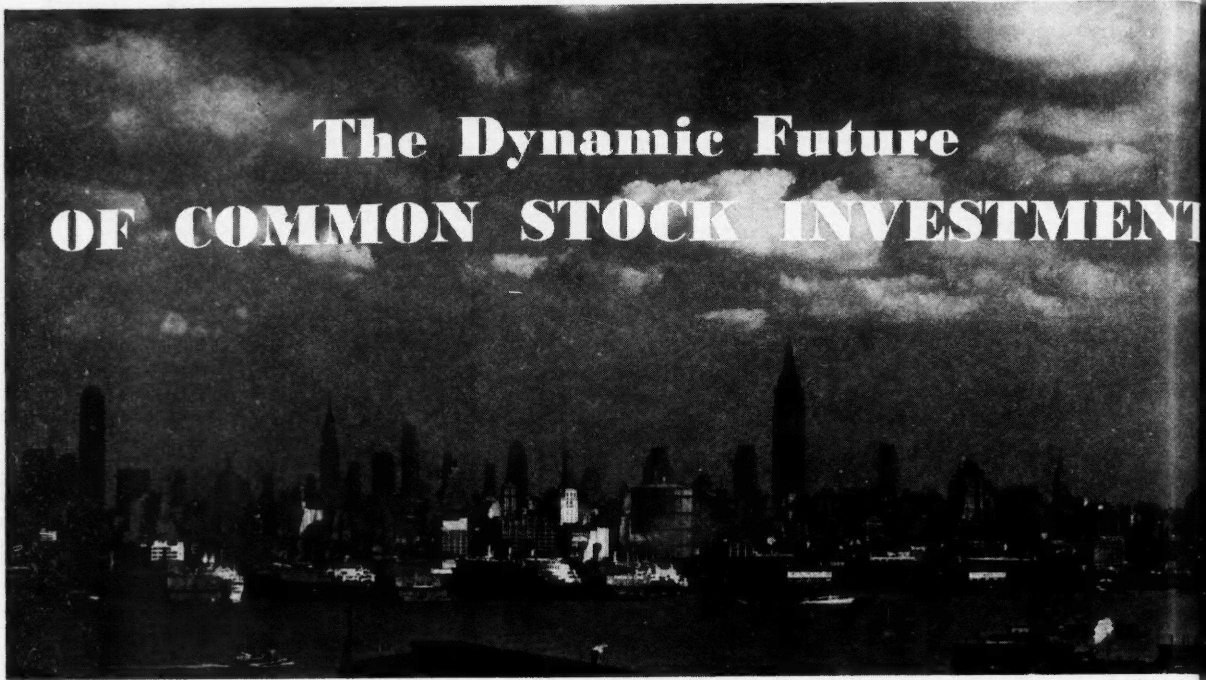
(2) Reduced capital gains tax, plus increased personal income tax, has radically increased the appeal of stocks regarded as offering potentiality of above-average percentage appreciation; and there are more candidates in this class among low and moderate-price stocks than among better quality issues.

(3) Long-term financial optimism is probably stronger, and is certainly more widely diffused, than in 1936-1937. Speculative stocks are bought more largely on "confidence" than on earnings or dividends.

(4) There is an inherent law of diminishing percentage returns (long term) in "bigness" and the good-quality stocks are mostly those of the largest companies. The Dow industrial average is made up of companies that have already "arrived." The war period and the post-war recovery cycle will find many "secondary" companies improving their status relatively more than presently better known companies. It is thus axiomatic that future bull market tops in any broad cross-section of lower-price stocks will be relatively higher than future major tops in the Dow industrial average.

The whole market position is closer to a complete cash position than ever before. Apparently it will take strikingly bad news to shake it down in more than moderate reactions. We are unable to predict what this bad news might be. Indeed, our feeling is that generally bullish news from the war fronts over the next few months is more likely than really bad news—even if, as may be likely, the Germans have another major offensive effort in preparation. If it is again aimed at Russia, the possible net result will be a further serious drain on Nazi strength—perhaps enough to bring German collapse importantly nearer.

Conclusion: The market's technical action continues to be all that any bull could reasonably ask; and we are loath to argue with it by looking for dark clouds which may or may not be over the horizon but which are not visible now. Selective purchases are favored.



Cushing

PART I

Profit Potentials in American Corporations

BY GEORGE S. KENT

WAR is a human disaster. However brilliant the *élan* of the soldier for freedom, however high the spirit of sacrifice called forth by the passion for liberty and country, it remains, on balance, a fertile source of misery. The young die in battle, the old in air raids. Cripples long testify to its ravages, the halt and the blind remain dread witnesses. Ruined homes, enslaved populations, families separated as in "Evangeline," the long psychic agony of fear, have justly made it the abhorrence of civilized mankind. Yet its grim necessity is clear to all but incurable pacifists. No one has yet learned to stay the arm of the ravager and enslaver except in his own terms: superior force.

Since war is universally known for the scourge it is, the tendency of mankind has been to consider it merely as a disaster. The prudent investor ruminates gloomily on its costs, on the long burden of excessive debt, on the distortion of industry, on the enormous costs, both direct and indirect, both temporary and lasting. It is only natural to think so. But it is not merely a mistaken view of the economic function of modern war: it is usually the reverse of the truth. War calls into play a series of factors, practically all of which are rich with promise for the discerning investor who seeks to endow his family with that security for which the war itself is fought. To disengage those elements in the industrial war organization of our country that promise profits, is the constructive theme of this series of three articles on the future of common stock investment.

A moment's reflection shows that wars cannot be the one-sided affair they appear to be. From the Tenth Century on Europe has been at war most of the time. In that period the population of Europe rose from under forty millions to over five hundred millions. Every war period, with two exceptions, left the European continent richer than at its outset. The Crusades developed the taste for Oriental goods, for silks and tapestries. The standard of living rose immeasurably. The Hundred Year War called for large new supplies of woolens and metal goods. The imperialist struggles of the Sixteenth Century were fought into newly discovered lands and developed a new middle class of merchants and traders and moneyed men. The Eighteenth Century, devoted to war, was the source of modern science, of invention and of the pooling of scattered savings into the new national debts that built up the great credit system. The Napoleonic wars found England a land of little artisans and left it with a developed factory system. Not all Napoleon's depredations prevented him nearly doubling the wealth of France. Every American knows that before the Civil War our industrial growth was slow: after that, it was the wonder of the

world, approximately quadrupling in a generation.

The reasons for these developments are not accidental. War, in and of itself, could of course, have no beneficial effect. The real reason was that war needs caused a transformation of industry. They reshaped production. They call upon idle capital and stimulate new techniques. These had to be resorted to quickly or the penalty was death or national humiliation. War has conjoined the prime source of all industry—the need for profit—to the prime source of all life—the need to survive. Time presses in war as it does not in civilian life. Hence war is a speeder-up of tendencies already latent in the profit system. Its stimulation, like that of a brilliant drug, cannot go on too long, for it will exhaust the system. But, within certain limits, that stimulation (if the body politic ceases using it at a proper point), leads to the increased health and power of the organism.

To go from generalities to the concrete effect of the present war on American corporations is the first necessity in understanding the post-war world. It calls for new yardsticks, for a new eye. Comparisons with the past are not so instructive as they were in normal times. The wideawake investor must be prepared to study the new world.

The accounting and securities analysis methods useful in 1939 will never again be the guides they were. That is not to say that the eternal verities of finance are not still valid. But whereas a company income account was a finality in 1939, it will not suffice us today as a guide to earnings.

Let us begin with the national savings. At the end of 1942 these funds, available for post-war investment, were over 105 billion dollars. More has been saved in these four years than the total available in 1938! That is, liquid funds, available for conversion without the need to realize fixed assets or even inventory positions, were more than the total production of wealth in the hitherto top year 1929. That the liquid savings of the country exceed 28 billions per annum is a certainty, and this after taking care of a level of taxation unprecedented even in war. It would not be surprising to see it exceed 40 billions if the current income of the people finds as little consumer outlet as it does at present. Nor can the appetite of war absorb even this immense nourishment. With a national income that bids fair to skyrocket beyond 150 billions per annum, and with the consumers goods production at 77 billions, the differential of about 80 billions is a sum that can easily take care of the current needs of the State without resort to classic inflation. Later it will be shown that the needs of the Government are not entirely disbursements, but are themselves a social form of savings, most of it available for future earning power.

The fact is that the productivity of industrial management and labor, the main source of weath, is extremely high. In 1940, before the war speed-up and the new war capital had come into play, the productivity per man-hour of labor was already nearly twice that of 1920. The industrial population of the country had increased by about a third, so that the coefficient of production was at about 250 compared to 1920. In other words, despite a decade of crisis, depression and reflation, the material industrial productivity of the nation had increased more from 1920 to 1940 than in all the previous history of the Republic.

The First Potential of Recovery

The volume of savings, however, advanced more slowly. On the wings of the 1940-43 recovery that volume is outstripping even the production gains. So here we have the first potential of recovery, a production of wealth that will soon exceed three times that of the boom period of the early 20's, plus a savings fund that can provide buying equal to this production possibility.

It does not follow, of necessity, that these parents of the child called profits, will, of necessity, have a lusty progeny, but without such parents, there are no profits at all. Taxation, the fear of governmental regulation, the need for reserves, timidity in new enterprise and in new investment, for a long time, counteracted the profits potential. But, now we have two central factors that are not inflationary in the bad sense of the term, and yet permit of a volume of profits which will rival the sanguine hopes of those who are bewitched by the idea that profits in common stocks ought to come mostly from price inflation. Clearly, a production three times that of a previous level, at the same price level (providing that costs do not rise faster than sales receipts), will

Ewing Galloway

Note the small size and height of the New York financial center before World War I and the far greater mass of up-town construction, entirely built after the armistice.

increase profits without any need to depend on higher prices brought about by deficit financing.

The United States saw one epoch, from 1878 to 1892, in which price levels declined, and yet the "Trusts" arose and a plutocracy was born merely out of the immense gains in national productivity. The era from 1921 to 1928 was characterized by commodity price stability and yet the profit level increased, even dangerously, with no price incentive to direct it. And an epoch of rising prices from 1856 to 1860 and from 1907 to 1914 was marked by severe industrial depression!

The argument that post-war earning power is dependent on price inflation has been over-emphasized. When one considers the immense expenditure of the 1914-18 war in relation to the then production of Great Britain and the United States, and compares the level of prices, a decade after the war with pre-war levels, it is astonishing how small was the rise in commodity prices compared to the immense distortion of finance by government debt. A rise in physical productivity can absorb the basic commodities in such wise as not unduly to disturb their respective ratios, so that prices balance at the same figure. And that may happen again.

The great booms of the past have arisen when a surplus of savings has coincided with a new field for the placement of such savings. The development of the American West for decades assured such an outlet to the swollen savings of Western Europe. The rise of mass production took care of the war savings of 1914-1918. Of the possibilities of consumers to buy now and after the war there can be no further question. There is money to buy in plenty. There is no need this time to stimulate demand unduly, by overpressure for installment sales. The backlog of demand, now tens of billions in arrears, is there. It aches for consumers' goods. It has foregone durable goods too. It has foregone home construction and automobiles. Production during the war has gone into the provision, not of new current goods, but of fixed capital. What form has this increase of fixed assets taken?

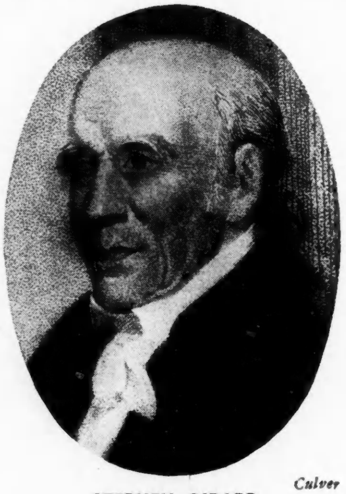
If one surveys the income accounts of the large companies, the results are modest. New investment in plant and properties, after operating expenses, are not at all impressive. In fact, earnings per share, after taxes, show a downward tendency from 1941 to 1942. The impact of taxes is such that it is feared that net earnings may prove even more disappointing in 1943.

Brown

JOHN D. ROCKEFELLER
Visionary capitalist, originator of the large-scale oil producing industry and pipe lines shortly after the Civil War.

Culver

DE WITT CLINTON
New York statesman: he saw the Winning of the West in the War of 1812 and completed the Erie Canal in 1825.



Culver

STEPHEN GIRARD
Shipowner and Banker: prime factor in developing American trade after the Revolutionary War. Also bank pioneer.

But this wooden mode of calculation excludes the most important earning power of all. The industrial equipment of the United States, loaned by the various war financing activities, is not, necessarily, listed as income, or as increase of capital, since the value is *owed.* Unless the value of these fixed assets comes to exceed the amount owed the Federal government, their influence on the balance sheet is nil. Yet, the productive power of this equipment is there. If its earning power should exceed the cost of repayment to the Federal government (after interest charges) then the capitalized value of that excess is a true, but concealed, income of the debtor corporation.

Now, a very large part of the war debt is represented by these enduring assets. When the weight of the National Debt is considered, it must not be forgotten that a very large part of that debt is not thrown into the sea, but is invested in plant and equipment of a nature to provide industrial net income. If a company uses, say, 100 millions of its own capital, on which its return is 10%, but has had placed at its disposal another 100 millions of capital by the Government, of which the amortization and interest cost is less than 8%, say, its profit possibilities are greatly augmented if that capital can be utilized for non-military purposes.

All present income statements are based on the assumption that the company has the future use only of its own capital. When the gearing possibilities, for the corporations, above Government subsidized investment, are considered, the investor can

be much more optimistic. The obvious railroad subsidies of the 60's and 70's that made fortunes for railroad investors, were so outright that they were clearly seen. The provision of additional capital by the Government in this war is more subtle, but ought to show comparable economic results for the far-sighted.

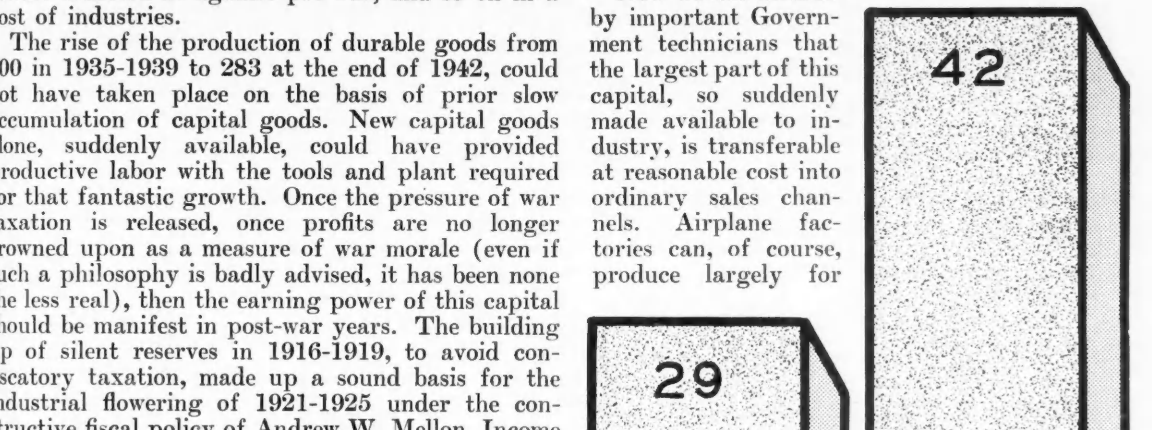
Formerly a corporation obtained an increase of capital from two sources: its own production profits, part of which were allocated to reinvestment, and the public offering of bonds or additional stock. The small amount of public subscription slowed up the second type of accumulation for many years. The poor yield of corporate capital from 1929 through 1934 and again in 1937 and 1938 diminished the first type of accumulation. Hence the moderate pace of new capital growth also diminished the recovery possibilities of the country. But with the provision of Federal capital, available out of taxation or bonds, we have the phenomenon of shipping production increasing eightfold in one year, of strategic metals fourfold as against pre-war, and so on in a host of industries.

The rise of the production of durable goods from 100 in 1935-1939 to 283 at the end of 1942, could not have taken place on the basis of prior slow accumulation of capital goods. New capital goods alone, suddenly available, could have provided productive labor with the tools and plant required for that fantastic growth. Once the pressure of war taxation is released, once profits are no longer frowned upon as a measure of war morale (even if such a philosophy is badly advised, it has been none the less real), then the earning power of this capital should be manifest in post-war years. The building up of silent reserves in 1916-1919, to avoid confiscatory taxation, made up a sound basis for the industrial flowering of 1921-1925 under the constructive fiscal policy of Andrew W. Mellon. Income statements by themselves are today but an imperfect guide to the real earnings of industrial corporations.

A company which made 10 millions a year would rarely reinvest more than 3 millions, after depreciation. It could scarcely obtain more than 40 millions in new capital, in a short space of time, by means of public offering of its securities. But if the Government needs more machine tools, or airplane parts, or magnesium, or aluminum, it wants this production without relation to recent earnings of the companies in those fields; it wants these facilities for production of goods without the limiting factor of the sales possibilities for the products in the open market. The capital so provided could never arise in ordinary economics.

Hundreds of corporations are far richer than they seem to be. But, once war demand for the goods they turn out today ceases, will their civilian sales equal this loss? Shipping production, for example, is a necessity today because of the submarine: it may be a necessity tomorrow because of the want of shipping for the great demand for reconstruction cargoes immediately after the war, but might we not find a surplus of shipping space, soon after the peace, and with it a reduction of the ability of the shipping construction companies to amortize the governmental debt? We must discriminate, for we know that shipyards are not convertible to other uses. Which companies, therefore, have plant and equipment facilities, transferable at reasonable cost into the production of civilian goods (both durable goods and those for immediate consumption) thus truly utilizing these Government-provided facilities as a source of continuing long-term profits.

Now we are assured by important Government technicians that the largest part of this capital, so suddenly made available to industry, is transferable at reasonable cost into ordinary sales channels. Airplane factories can, of course, produce largely for



The Savings of the American people since 1939 have increased and are continuing to increase at a steadily quickening pace. If the War Production Board estimated reductions of minimum consumer goods production are realized, and should the production of war commodities reach the minimum figure projected, national savings should rise to 80 billions in 1945, or before.

the civilian aircraft demand, bound to expand after the war. A large part of the highly technical equipment that goes with airplanes will have a continuing market. Basic metals production will remain in many fields, because the new Governmental capital has cheapened their production costs so greatly that they can act as substitutes for clumsier or more costly metals. Plastics, a favorite for Government aid, have a destiny which many think will rival that of the effect of iron and steel manufacture on the early expansion of capitalism. But, even where the machinery, the tools, have to be modified or substituted for other civilian uses, where the present war production must be given up, in most instances, the costs of the transformation will be moderate compared to the cost of the new capital the Government has made available to these companies.

It must be remembered, too, that in England, for example, a large part of the costs of the shipping construction yards, which fared so badly after 1925, had been provided in the open market at excessive cost. Even in this industry, which cannot be transformed, cheap government-provided capital may prevent as great a depression. And (apart from direct munitions and armaments production) this is the most extreme case of all. To those, too, who saw how the armaments plants of Continental Europe were quickly modified into the production of things as modest as razor blades (and at good profits) their faith in American ingenuity cannot permit them to hope for a poorer showing.

The neglect of this factor in forecasting the long-term profit potentialities of American capital, is surprising. Especially is this neglect striking when the savings potential of the people is related to its cause: the long deferment of consumer demand.

The French had a motto "*Quant le batiment marche, tout marche.*" (When building is brisk, all industry thrives.) The building of private dwellings in the United States since 1928, has, in proportion both to the growth of population and to the gradual depreciation of existing habitations, been the smallest building program in three generations.

Vast Building Needs

The considerable shift of populations has been hampered by it; the crying need for more and better housing, especially in the newer industrial centers is known to all. Private building of under two billions a year—often witnessed in the last fifteen years—is meagre for a nation like ours. It is quite possible to calculate the mere arrearage of housing at many years construction. If the raising of the level of income in areas like the South is taken into account, as well as the growth of the Pacific coast, a more impressive estimate would be within reason. An increase of building, by increasing land values in the affected areas, would provide the municipal and state authorities everywhere with an increase of taxable values and thus would largely release general industry from the burdens of local taxation.

Another illustration. The railroads have not been much favored in the provision of new capital. They are the orphans, forgotten by their Uncle Sam in distributing the largesse of new capital to war industries. They use their equipment to a point where there are diminishing freight possibilities for their present facilities. Yet their cash positions have increased to the very best in years.

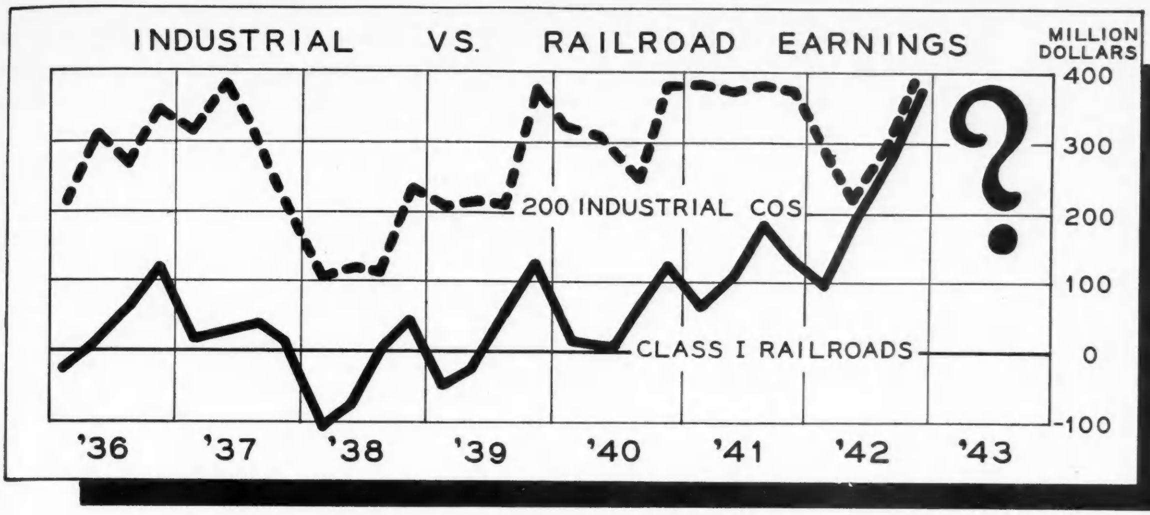
This cash position was what the rails, as a group, sorely lacked for many years. When capital construction is turned to civilian uses again, the modernization and re-equipment of the rails will absorb large sums. The use of lighter metals, the air-conditioning of passenger trains throughout, the speeding up of freighters, call for a volume of business almost rivaling the taking up of the slack in our building program.

It is impossible to imagine this country ever again allowing itself to neglect the rails on the ground that they are "old-fashioned" or "superseded" means of transport. The excessive reliance on one fuel—petroleum—and of one means of transport, would have led to a breakdown of the entire war economy, were it not for the efforts already made by the rails (when they were most frowned on) to keep up their rolling stock. From now on we will allow ourselves some leeway, some hedges against misfortune, so that if one means of transport becomes unworkable, another is ready to take its place. It is doubtful whether the experience (*Please turn to page* 104)

Ewing Galloway

First Oil Well in America, Titusville, Pa., 1861

America's distinctive civilization — the automobile society — is one product of this pioneer well.



First Quarter Earnings Disclose Divergent Trends

BY WARD GATES

Approximately 100 corporations with securities listed on national exchanges have issued their first quarter reports as this is written. They reveal an aggregate earning power—for industrial enterprises—slightly lower than in the first quarter of last year.

This fact is somewhat surprising and it may be well to take it with a grain of salt, since the sample is not a very large one and the majority of the more important companies are yet to release their statements. In the writer's opinion, total industrial earning power for the period should prove to have been—when all reports are in—at least as good as a year ago and probably a little bit higher.

The chart at the top of this page records the quarterly total profits of a representative list of 200 large industrial companies, and of the Class I railroads, from the start of 1936 through 1942. The divergences shown are worth brief discussion.

Earnings of the industrial companies closely approached a $400,000,000 total in the second quarter of 1937, in the fourth quarter of 1939, in the fourth quarter of 1940, in all four quarters of 1941—that year's aggregate having almost exactly duplicated the total of the "fabulous" year 1929—and in the fourth quarter of 1942. But it will be noted that with the war volume gain offset by higher taxes and continuing contract renegotiation, industrial earning power has not been able to rise significantly above the best quarterly levels of any of these prior years.

In contrast, earning power of the railroads in the fourth quarter of last year had attained a level nearly three times larger than the best quarterly figures of any of the pre-war years shown on the chart.

Quarterly earning power of the 200 industrial companies reached its apparent peak for the "duration" in the first three months of 1941 at a total of $383,221,000, but stabilized only modestly under that level for the next three quarters, then dropped sharply in the first quarter of 1942 to a total of $275,428,000, as the majority of companies allowed for much heavier tax reserves in anticipation of the 1942 tax legislation — the terms of which were at that time almost anybody's guess.

In the second quarter of last year the figure took a further slide to $225,921,000 as additional companies boosted their tax accruals on a guess basis. By the time, however, that third quarter statements were made up, the tax liability was a known quantity; and some companies promptly adjusted tax reserves downward, resulting in a betterment of reported net income. At the same time rising production in some of the converted industries—especially the automobile industry—tended to lift earnings. As a result of both factors, total profits recovered to $289,257,000.

For the fourth quarter of last year, the figure spurted to $387,000,000, a bit higher than any previous quarter of the entire war period and also higher than any previous quarter since mid-1929—but there was a considerable element of illusion in the comparison, as we shall see.

While increased volume in the war-active industries played some part in the good fourth quarter results, the main story was simply one of bookkeeping adjustments. On the one hand, tax liability in

Companies Reporting Increased Earnings

	First Quarter 1943	1942
Johns-Manville	$1.23	$0.77
Blaw-Knox	.31	.21
Conde Nast Publications	.72	.19
Houdaille-Hershey	.60	.38
Jarvis (W. B.) Co.	.33	.16
McKesson & Robbins	.54	.38
Peoples Gas Light & Coke	1.94	1.59
Plymouth Oil	.52	.45
Texas & Pacific	2.97	1.69
Thompson (John R.) Co.	.71	.12
Bangor & Aroostook R. R.	4.03	2.23
Barber Asphalt	.38	Def.
Ferro Enamel Corp.	.27	.19
Castle & Co., A. M	.67	.45
Loose-Wiles	.69	.66
Allen Industries	.27	.23
Atlantic Refining	.45	.41
Caterpillar Tractor	.73	.60
Harbison-Walker	.36	.31
National Biscuit	.35	.32
General Cigar	.40	.32
Allegheny Ludlum Steel	1.08	.69
Bayuk Cigars	.83	.71
Budd Wheel	.45	.32
National Distillers	1.09	.52
American Home Products	1.45	1.38
National Cash Register	.53	.51

Companies Reporting Decline in Earnings

	First Quarter 1943	1942
Beech-Nut Packing	$1.53	$1.59
Continental Steel	.50	.68
Household Finance	1.24	1.37
Keystone Steel & Wire	.29	.48
Texas Gulf Sulphur	.46	.48
Dome Mines	.37	.43
Merchants & Miners Trans.	.46	.94
Sutherland Paper	.64	.85
Westinghouse Air Brake	.33	.35
Cream of Wheat	.38	.42
Detroit Steel	.48	.63
Howe Sound	.93	.99
Mullins Manufacturing	.22	.48
American Brake Shoe	59	.61
Butler Bros.	.24	.24
New York Air Brake	.80	.88
Libbey-Owens-Ford Glass	.14	.21
Mathieson Alkali	.36	.37
Granby Cons. Mining	.12	.29
Magma Copper	.41	.69
Pacific Finance Corp.	.05	.59
Savage Arms	.32	.74
Soundview Pulp	.39	.81

many instances had been over-reserved in prior quarters; and on the other hand, some companies in the year-end accounting credited post-war tax refund allowances to earnings. In other words, much of the gain in the fourth quarter profit total represented profit that really had been earned in previous quarters.

One must therefore conclude that true industrial earning power at the end of last year—as nearly as it can be got at under the accounting difficulties encountered in a war economy—equalled the average of the last 9 months of the year or around $300,000,000 quarterly for our composite group of 200 large industrials.

It is not only certain that first quarter results this year will show a sharp decline from the fourth quarter, but probable that they will be moderately under the $300,000,000 level. Naturally, there are many cross-currents and divergences behind an aggregate earnings figure of this kind. Total industrial volume for the period was higher than for the first quarter of last year, but for the latter period a sizeable number of companies had figured taxes at 1941 rates; while on the other hand this year's first quarter reports will reflect the full impact of higher taxes and in addition the net profit of quite a few war-active companies will be retarded by lower profit margins incident to renegotiation of Government contracts.

The best that we can expect from here on would be fairly stable industrial earning power somewhere near the level of the first quarter of 1942 and somewhat under the average of 1942. The rise in volume, even for war producers, is tending to slow down, so that—generally speaking—it has become harder to increase earnings before taxes. For many "non-war" enterprises, the trend of volume is down. In the case of companies subject to maximum tax load, neither a decline in volume nor any probable increase in operating cost would suffice to lower net profit more than moderately. But with volume gains narrowing or disappearing, any further rise in tax rates—such as a 45 or 50 per cent combined normal and surtax rate instead of the present 40 per cent—would cut importantly into earnings of quite a few companies.

The position of the railroads is unique in that their first quarter earnings will show a very sharp gain over a year ago. But at the same time it should be noted that aggregate rail earnings for this period will in all probability establish their peak not only for the duration of the war but for all time—unless or until another war comes along. This is because it is physically impossible—due to inadequate rolling stock—to expand volume materially from here on; and also because quite a few roads will have exhausted previous excess profits tax carry-overs and thus will be subject to much higher taxes.

However, rail stocks are priced at such extremely low ratios to current per share earnings that even substantial earnings declines would hardly affect market values appreciably — if other things were equal. That is, rails now are—and will continue to be—more responsive to the general factor of speculative and investment confidence in the future than to precise figures of per share earnings.

Rail Equipment Earnings

Partly because of promptness in issuing reports and partly because there are not so many companies in the field, the rail equipment industry is more fully represented in the quarterly statements thus far issued than any other important industry. Reports are in hand from American Brake Shoe, New York Air Brake, Westinghouse Air Brake and National Malleable & Steel Castings. They are interesting in that all four show declines from the first quarter of a year ago.

New York Air Brake reserved only $271,400 for Federal taxes against $1,224,500 in the first quarter a year ago, yet net nevertheless declined from 88 cents a share to 80 cents. Though sales were not stated, it is improbable they declined enough, if any, to account for this change. One concludes that taxes were over-calculated a year ago, or that profits before taxes were substantially reduced by contract renegotiation or otherwise. In the case of Westinghouse Air Brake, tax reserve for the first quarter was much larger than a year ago, the difference being enough to account for slight drop in net from 35 cents to 33 cents a share. American Brake Shoe

earned slightly less before taxes than a year ago, despite sizable sales increase, and charged off slightly smaller tax reserve. Nominal decline in net from 61 cents a share to 59 cents must therefore have been due to higher cost and contract renegotiation. First quarter tax reserve of National Malleable was not much more than half what it was in the first quarter of last year, yet net declined from 79 cents a share to 63 cents. Sales figures are not given, but probably did not decline. Net before taxes must have been reduced by higher costs and contract renegotiation.

Although rail equipments are popularly regarded as "war stocks" with dubious peace-time earnings prospects, it is interesting to observe from the accompanying tabulation that price earnings ratios of these four stocks are uniformly higher on the basis of present war earnings than on the basis of average earnings of 1936-1937. The opposite is true of genuine "war stocks," such as Savage Arms which you will note is priced at approximately 8.6 times probable 1943 net per share but over 21 times average 1936-1937 net per share. Market prospects of rail equipments are more fully discussed as part of the article beginning on page 85. In looking over the data presented here in the tabulation on price-earnings ratios it must be noted, however, that these four stocks are not typical of the rail equipment industry. Due mainly to specialized products, their earning power in the pre-war recovery cycle was substantially better than that of the locomotive and car builders.

Big Industrials

One of the most interesting of the big industrials among the early reports is Johns-Manville. On a sales gain of only approximately 10 per cent, net per share jumped to $1.23, against .77 cents in the first quarter of 1942. As usual, stockholders in this company don't have to do any guessing as to "how come." Even the brief quarterly statement provides adequate explanation of the factors behind the changed profit figure. Net before taxes was moderately lower than a year ago, due to higher costs of operations. Federal taxes were over $700,000 lower than in the first quarter of last year due to (1) lower pre-tax earnings; (2) a change in the company's excess profits tax base, and (3) the fact that taxes reserved in the first period of last year were over-estimated. Typical of the company's conservative war-time policy, the contingency reserve set aside was equal to approximately 50 per cent of net income reported to shareholders. Johns-Manville, one of the "premier" stocks in the eyes of speculative-investors, is priced at about 16.4 times indicated 1943 net per share and 14.8 times average net of 1936-1937.

General Electric, with the "help" of contract renegotiation by the Government, has evidently succeeded in completely stabilizing war-time profits. Although sales billed during the first quarter were the huge figure of $277,872,000, against $190,861,000 in the first period of last year, net per share was 36 cents or identical with a year ago. Net before taxes, however, amounted to $76,442,000 or substantially more than $53,364,000 shown a year ago. Boost in tax reserve from $37 million for the first period of last year to $60 million—both being nice round figures—vied with contract renegotiation in freezing net profit for shareholders.

But in the eyes of the investors who think the world of General Electric—and they are numerous—it apparently doesn't much matter what the company earns or what the stock yields. As you will note in the accompanying tabulation, it is now priced at approximately 23.3 times indicated 1943 net per share and 18.8 times the average net of 1936-1937. The current yield on $1.40 dividend is only 3.88 per cent.

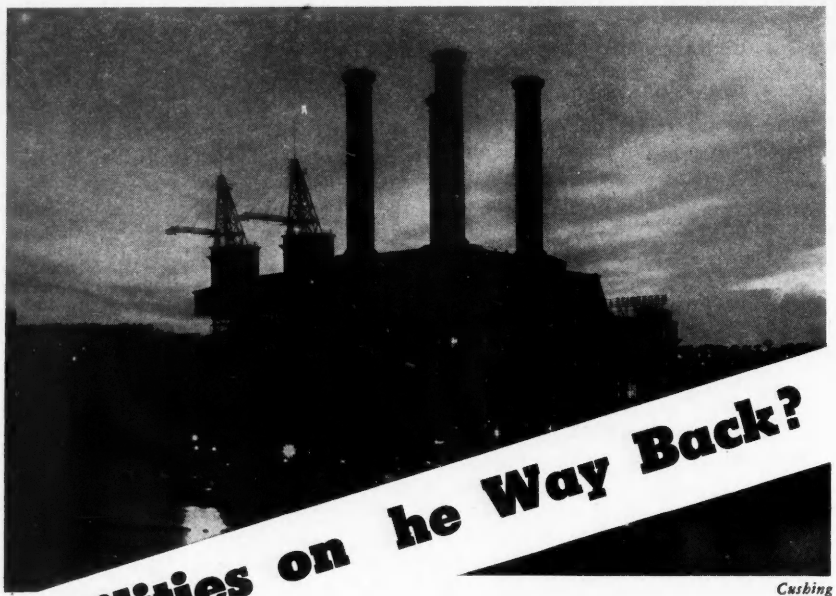
Food company reports indicate that earnings in most cases are thus far being well maintained, National Biscuit and Loose-Wiles showed small gains over the first quarter of 1942 and Beech-Nut Packing a trifling decline. Taking a longer look backward for comparative purposes, it is significant that indicated 1943 profit of Loose-Wiles is sharply above its 1936-1937 showing, that Beech-Nut —despite war taxes—sticks remarkably close to the $6.22 per share averaged in 1936-1937, but that National Biscuit's war-time earning power is materially lower than in the best pre-war years.

The most important steel company statement available at this writing is that of Allegheny Ludlum. Evidently expansion of facilities and sales—which can make a much bigger percentage difference for a smaller company than for a giant, such as U. S. Steel or Bethlehem (*Please turn to page* 112)

Comparing Earnings and Price-Earnings Ratios of Selected Common Stocks

	1936-'37 Avge. Net Per Share	1943 Ind. Net (a)	Price Ratio to 1936-'37 Net	Price Ratio to Ind. '43 Net
Issues Classed as "Peace Stocks"				
Beech-Nut Packing	$6.22	$6.12	16.5	16.7
Loose-Wiles	1.59	2.76	17.0	9.7
Sutherland Paper	2.67	2.56	10.8	11.3
National Biscuit	1.67	1.40	12.0	14.2
Cream of Wheat	2.17	1.52	9.7	13.9
General Cigar	2.93	2.60	9.5	10.7
Household Finance	7.22	4.96	6.9	10.0
Lehn & Fink	1.52	1.90	12.1	9.7
Bayuk Cigars	2.14	3.00	12.4	8.8
American Home Products	3.83	5.80	16.2	10.6
Heavy Industry or "War" Stocks				
Westinghouse Air Brake	1.80	1.32	11.6	15.9
Harbison- Walker	2.30	1.60	7.3	10.6
Sloss-Sheffield	7.70	9.00	14.2	12.2
New York Air Brake	3.28	4.20	10.3	8.0
Transue & Williams	1.59	3.70	26.0	4.2
American Brake Shoe	3.48	2.40	10.6	15.4
Allegheny Ludlum Steel	2.15	4.32	11.6	5.7
Savage Arms	.52	1.28	21.1	8.6
National Malleable	3.20	2.52	5.5	7.0
"Peace or War" Stocks				
National Distillers	3.83	4.36	8.1	7.1
Johns-Manville	5.47	4.92	14.8	16.4
Plymouth Oil	2.25	2.00	8.8	10.0
General Electric	1.86	1.50	18.8	23.3
Caterpillar Tractor	4.50	3.85	10.0	11.9
Ferro Enamel Corp.	3.00	1.10	4.6	13.0
National Cash Register	2.09	2.12	11.5	11.3
Houdaille-Hershey	2.20	2.40	6.5	6.0
Budd Wheel	.69	1.80	13.9	5.3

(a)—1943 indicatd net per share as used here is simply a projection of first quarter earnings, with allowance for seasonal or other factors in some cases.



Cushing

Utilities on the Way Back?

BY OWEN ELY

UTILITY stocks enjoyed a tremendous vogue in the 1920's. Electric power was considered the most rapidly growing industry, and buyers were willing to pay a big multiple of earnings to discount this anticipated growth. The greater the capital leverage the greater would be the net gain based on the increase in sales—hence the popularity of the holding company securities, fresh offerings of which were rapidly supplied to the public by Samuel Insull, Howard Hopson and other utility "leaders" of the promotor type.

The utilities dropped along with the general market during 1929-1932, and some of the mushroom crop of top-tier holding companies were eliminated in the crash. But the decline in utilities did not stop there as it did with industrials. Facing a hostile administration in Washington, unfavorable legislation, and stringent Federal regulation, good utility stocks continued to decline during the 1930's, while industrials recovered part of their depression losses. The final blow to the utilities was the enactment of heavy Federal war taxes, to which the industry proved particularly vulnerable.

Using Standard & Poor's index of holding company stocks and taking the 1929 high as 100 per cent, the average dropped to a low of 8 in 1932 and recovered to 21 in the following year. However, the fight over Federal legislation brought the average down to about 5½ in 1935. Due to delays in enforcing the new law, as well as favorable market conditions, the average rebounded to 20 in 1937; but subsequently the SEC became "tough" and wartime taxes depressed utility earnings, so that in 1942 the average made a new low at about 2¾. Unexpectedly favorable tax legislation last Fall, together with the election returns and increased speculative activity, brought about a recovery to around 6—but obviously the holding company stocks still have a long ways to go to reach even their 1937 highs. Meanwhile, based on a similar scale, the chemical stocks—another "growth" industry—are selling at 61 or relatively ten times as high as the utility holding company stocks (in relation to 1929 highs). And 354 industrial stocks are selling at 49 (compared with the 1929 high as 100) or about eight times as high as the utilities on the 1929 scale.

Of course the record for the operating company stocks has been somewhat better than that of the holding company issues, but the results are similar. These issues are selling currently—despite the recent rise—at 21 per cent of the 1929 high and 60 per cent of the 1937 high.

What are the prospects for further recovery? The answer would seem to lie in the trend of events at Washington, and also at Philadelphia, where the SEC now has its quarters. There was some evidence of a better feeling toward utilities in Congress last Fall when they were given a favorable "break" on tax legislation; but the attitude of the SEC, while rather erratic, seems to remain somewhat hostile—i.e., determined on strict enforcement of the letter of the "death sentence" regardless of repercussions in the security markets. Over the longer-term, of course, most SEC policies may be constructive, but investors have obviously been puzzled and apprehensive over the methods employed to implement and enforce these policies.

While the "death sentence" provisions of the utility act have been appealed to the Supreme Court, and hearings are about to begin, it is doubtful whether the utility holding companies look for much comfort from this quarter. Many of them appear reconciled to dissolution programs, where these can be accomplished without the forced sale of properties in order to provide cash for retirement of senior securities. While a number of SEC orders have been

issued requiring sale of properties within certain time limits, thus far these "dead lines" have not expired and an actual showdown over forced sales has not been forthcoming as yet. However, if utility properties are "forced under the hammer" by SEC order, in the same manner as foreclosed homes have been sold at sheriff's sales, this may be the best thing that could happen to the industry, for it might arouse security holders to ask Congress to come to their rescue by suspending Section 11 for the duration of the war or permanently. It may be, however, that some means will be found to avoid forced sales, by paying off senior holding company securities in "kind" rather than in cash.

Some of the holding companies such as Cities Service and Electric Bond and Share have recently been bold enough to criticize the SEC or the death sentence in their annual reports and it is hoped that Congress will pay some heed to their pleas. A bill was introduced some time ago giving the SEC the option of suspending Section 11, but no hearings have yet been held.

Price-Earnings Ratios

Utility operating company stocks are now selling to average about ten to fifteen times current earnings, and yield in the neighborhood of 6 to 8 per cent. Only moderate improvement in earnings seems possible so long as present tax rates remain in force, and it is quite possible that later this year Congress may raise the normal income tax rate from 40 per cent to 45 per cent. This may have some temporarily unsettling effects on utility prices, as in 1942. However, once investors become convinced that earnings will not be further reduced by taxation, they may be willing to pay a substantially higher price-earnings ratio for the best operating company stocks. To a certain extent Federal taxes form a buffer against the possible effects of inflation, since taxes absorb a considerable part of any rise in operating costs. Moreover, the President's campaign against inflation has favorable implications for the utilities.

As regards the holding company stocks, many of the low-priced issues have had a tremendous rise percentage-wise from last year's lows and seem to have "shot their bolt" for the time being. Nevertheless, there are still many opportunities for the careful student of "special situations." For example, Standard Gas & Electric prior preferred stock a short time ago was selling at only twice its share earnings, and a plan was announced for recapitalization; after a few day's delay the stock enjoyed a sudden advance. The same sort of rise occurred when United Light & Power announced its earnings of about $11 a share, and a few days later the SEC approved the company's dissolution plan—the stock advanced 20 points within a few days. To take a low-priced issue, California Electric Power was obviously a bargain at 1⅝ in January. With earnings of 82 cents a 1939, purchasing some 8,000 new cars with these share and a pending recapitalization plan, the stock has advanced to 5. Other opportunities doubtless still exist but bargains are certainly harder to find now than at last year's low prices.

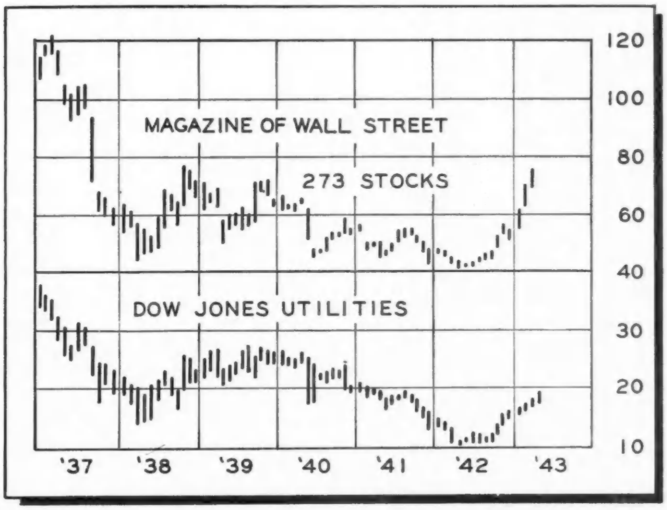
The accompanying table lists some of the better quality utility stocks by groups, the first group including operating company common stocks, for yield and long-term appreciation; the second, holding company preferred and common stocks, for attractive yields and possible price gains; and third, some of the senior holding company issues which do not pay dividends at present, but may have long-term liquidating possibilities. We comment briefly on some of these selected issues, as follows:

Consolidated Edison has maintained a generous dividend rate in relation to earnings, and on a yield basis is outstanding in its class. The stock's popularity among investors of the old school may have waned somewhat in recent years, due to the declining importance of the New York area in the nation's economy, but the company is conservatively capitalized and maintains a strong financial position.

Consolidated Gas of Baltimore is one of the "blue ribbon" utility stocks which sell on a relatively low yield basis. It is the type of stock favored by institutional buyers, estates, etc. Earnings are quite stable and the company has an excellent record.

Detroit Edison's showing in the past year or so has been somewhat disappointing considering the heavy concentration of war activity at Detroit. Moreover, a large amount of the stock is held by American Light & Traction, which may some day distribute its holdings; North American has already passed out its holdings to its own stockholders. This factor may detract somewhat from the stock's appreciation possibilities (although it is still reasonably priced compared with the 1942 range).

Pacific Gas & Electric affords a good yield and earnings have held up quite well, considering Pacific Coast dimouts, etc. Here also there is a possibility that a block of stock, owned by Standard Gas & Electric, might be liquidated in the next year or so. Such liquidation is not always unfavorable, however,



if it attracts new investors and advertises the merits of a stock.

Southern California Edison is a steady-going conservative company whose stock affords a reasonably attractive yield. Occasionally some investors raise questions regarding the dangers of California earthquakes, Federal competition and radical local politics; but these factors have apparently not affected the attitude of large investors.

Commonwealth Edison has lagged somewhat behind other issues recently, presumably due to the low quarterly dividend rate and the fact that one of its large bond issues is convertible into the stock at 25. A year or so ago, however, the stock maintained a much firmer market position than Consolidated Edison of New York.

Columbia Gas second preferred has nearly tripled in value in six months so that appreciation possibilities may have been largely discounted. The large share earnings are due to the small size of the issue as compared with the first preferred stocks. Columbia Gas in 1942 earned its over-all charges and preferred dividend requirements 1.13 times which gives a better picture of the margin of safety for dividend payments. However, the company is now in very strong cash position and it is understood that there is an 18-months preferred dividend reserve set up under SEC requirements, though this does not appear in the balance sheet.

American Water Works & Electric's 1942 report was slightly disappointing due to its inability to effect certain tax savings for technical reasons, but the company appears to be in sound position and the dividend reasonably safe (over-all system charges and preferred dividends were earned 1.16 times).

American Light & Traction has paid dividends of $1.20 per annum for some years but it is possible that the rate might be reduced somewhat, since one of its most important companies (San Antonio Public Service) was sold a short time ago. However, the company has indicated its intention to distribute its assets to the preferred and common stockholders in dissolution and a plan may be forthcoming some time in the near future. The common stock may have prospects for further appreciation, possibly to around 20-25, if such a plan should be consumated.

Pacific Lighting is a large natural gas distributing company serving Southern California, including the city of Los Angeles. Earnings have been stable in recent years at moderately above the $3 level; 1942 figures showed a gain of 5% over the previous year, contrary to the experience of most operating companies. While technically in the holding company class, the company is virtually an operating company since system operations are well integrated.

Below Liquidating Value

United Corp. $3 Preferred, despite its advance from 11, is still substantially below its liquidating value and the latter should be automatically increased by the partial liquidating plan of United Gas Improvement, expected to go into effect shortly. United's dividend payments have been irregular in the past year or so and it is only earning about half the $3 rate so that income should be considered a secondary factor.

United Gas Improvement has paid dividends since 1885 without interruption, which helps to explain the modest yield. Under the plan on which stockholders are currently voting, each share will receive one-third of a share of Philadelphia Electric new common and one-twelfth share of Public Service of New Jersey, while retaining the equity in remaining investments.

American Power & Light preferred is selling somewhat higher in relation to earnings than some of the other holding company issues but will doubtless follow the group trend marketwise. Like most of the holding companies it has some SEC problems to settle, before dissolution can be completed and stockholders can "cash in" on liquidating value. The company has a large bond issue, which gives the issue leverage.

Commonwealth & Southern's application for permission to reduce the par value of the preferred, in a move to resume dividend payments, was recently rejected by the SEC, which reminded the company that it should continue its efforts to work out plans for recapitalizing on a one-stock basis. Liquidating value should be substantially above the current price, under present market conditions, it is estimated, since operating company stocks usually sell at a much higher multiple of earnings than holding company issues.

Electric Power & Light preferred has quite a job on its hands to straighten out triangular relations with United Gas and Electric Bond and Share, in order to obtain income from its big investment in United Gas (*Please turn to page* 112)

Utility Stocks for Income and Appreciation

Operating Company Stocks for Income	Price About	Div. Paid*	Yield About	1942 Range	Recent Earnings
Consolidated Edison N. Y.	19	$1.60	8.5%	16⅞-11⅜	$1.79
Consolidated Gas of Balt.	61	3.60	5.9	57⅝-39½	4.20
Detroit Edison	18	1.20	6.7	18⅝-14⅝	1.27
Pacific Gas & Electric	28	2.00	7.2	24¼-15½	2.21
Southern California Edison	24	1.50	6.3	21⅛-14⅞	1.59
Commonwealth Edison	24	1.40	5.9	23¾-17⅜	1.74
Peoples Gas Light & Coke	51	4.00	7.9	47¼-36	6.10
Holding Company Stocks for Income and Appreciation					
Columbia Gas $5 2nd preferred	43	5.00	11.7	34 -15¼	24.01
American Water Wks. & Elec. $6 pfd.	72	6.00	8.4	70¼-39	18.46
American Light & Traction	16	1.20	7.6	13½- 7⅛	1.85
Pacific Lighting	41	3.00	7.4	34 -22½	3.51
United Corp. $3 pfd.	26	3.00	11.6	18 -11	1.52
United Gas Improvement	8¼	.40	4.9	5¾- 3½	.56
Holding Company Stocks for Appreciation					
American Power & Light $5 pfd.	28	......	....	22 -12½	6.02
Commonwealth & Southern $6 pfd.	53	......	....	44½-21⅛	8.05
Electric Power & Light $6 pfd.	46	......	....	32¾-15	11.43
Buffalo, Niagara & East. $1.60 2nd pfd.	15	......	....	15⅛- 5¼	18.01
American Superpower 2nd pfd.	11½	......	....	2⅞- 1⅜	.05
Standard Gas $6 pfd.	23	......	....	11½- 5⅛	12.06
Puget Sound P. & L. $6 pfd.	54	......	....	52½-35	13.00**

* Indicated current rate of payment.
** Approximate—see discussion in text regarding proposed recapitalization, etc.

Watch the World Go By—

Sterling Balances Create A Problem for India

BY V. L. HOROTH

THE political tug-of-war in India between the Moslem League, The Congress Party and the British Government has pushed into the background the far-reaching economic and financial developments which have received comparatively little publicity. Yet these developments may prove just as important for some 370 million Indians as the eventual winning of political independence. They are illustrative of the shifts now going on within the British Empire, and from the point of view of our post-war trade they probably vie in importance with the similar developments now taking place throughout Latin America.

Briefly this is what has happened. In the words of Sir Jeremy Raisman, the Finance Member of the Delhi Government, "India has completed the transition from a debtor to a creditor country and extinguished in a brief period of about three years public indebtedness to the United Kingdom which took some 60 years to accumulate." This feat has been made possible by extremely favorable balances of international payments, which are still continuing.

The source of sterling balances has been, in the first place, large expenditures by the British Government on the defense of India. In the three years ended last March, something like 6¼ billions of rupees (or about $1,900 millions) were spent by the British Government in India for military supplies in payment of British troops in India and of Indian troops outside of the country (Indian troops in India are paid by the Indian Government). In the 1942-43 fiscal year, the British expenditure in India was actually twice as large as the budgetary outlays of the Indian Central Government (see table).

The second source of sterling balances has been merchandise trade. Though Indian exports are being limited more and more to strategical materials, they are being maintained at the level of about 2,000 millions rupees a years. On the other hand, the imports shrank in 1942 to little more than half of the exports, reflecting the priority restrictions and shipping difficulties. As a result, India last year had a larger export surplus than ever, estimated on the basis of the first eight months' figures at about 900 to 1,000 millions rupees (see table). Incidentally, the United States has become the second largest supplier of Indian imports; it ranked fifth before the War.

The repayment of practically the entire Government sterling debt, amounting at the outbreak of the war to some 4,800 millions rupees, utilized only a part of the accumulated sterling. Despite this repayment, the sterling assets of the Indian Reserve Bank had increased by February of this year to some 4,700 millions rupees, compared with about 780 millions rupees held in August, 1939.

One of the problems now facing India is what is to be done with these sterling balances. From Indian sources a suggestion has been made that the British direct investments in India, put at about 3,300 millions rupees (about $1 billion) in 1940, be exchanged for the sterling balances. Another plan is to provide a fund for civil service pensions and similar obligations payable in sterling. Still another plan mentioned by the *London Economist* is to *create a reconstruction fund out of which would be financed the heavy imports of machinery and materials needed for an ambitious program of Indian post-war industrial expansion.* But such a solution is being attacked by Indian (*Please turn to page* 112)

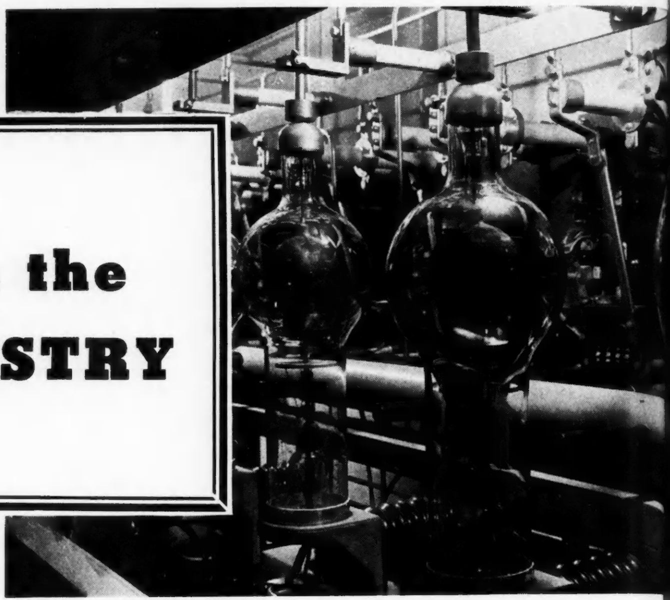
India—Statistical Summary

(All figures in Millions of Rupees unless otherwise stated)

Year End—	Notes in Circulation	Foreign Assets of Central Bank	Wholesale Prices (1929 = 100)	Expenditures (d) of the Central Govt.	Expenditures (d) of Great Britain for Military Supplies, etc.	External Debt. (d)
1938	1,880	608	68	1,305	40	4,800
1939	2,539	1,130	76	1,301	533	4,691
1940	2,412	1,887	85	1,583	1,866	4,628
1941	3,211	2,748	99	1,892	3,865	3,411
1942	5,704	4,758	161(a)	2,287(e)	....	1,223
1943 (latest)	6,254	4,873	......	2,596(g)	....	880(h)

(a)—November, 1942; (d)—fiscal years, April - March; (e)—preliminary; (g)—budget for 1943-44. (h)—Repayment of additional 720 millions rupees was announced to take place before the end of this year.

New Age in the GLASS INDUSTRY



High voltage rectifier tubes made by Westinghouse Electric.

BY PHILLIP DOBBS

GLASS, the world's oldest plastic, today is fulfilling an increasingly important role in our war production after successfully overcoming many obstacles. War's impact on the industry, normally one of the most stable, was by no means uniform. Paradoxically, it proved both a windfall and a serious blow. Flat glass manufacturers, hard hit by the suspension of automobile production, experienced a sharp slump which will be felt for the duration despite increasingly successful adaptation of glass to war-time needs. One the other hand, the glass container manufacturers fell heir to a substantial volume of container business diverted from the can manufacturers because of priorities and the shortage of tin.

Deprived of their principal outlets, few industries were confronted with a more difficult problem than the flat glass industry. Plate glass sales dropped precipitously and 1942 production was 67% below 1941 levels. Sales of window glass declined only 4.8% as a heavy volume of defense housing offset restricted residential construction; however, with the former now past its peak, a further and probably greater shrinkage of window glass business is inevitable. Current activity is at the rate of 71.8% of capacity against the 1942 high of 101.3% in April. Normally, plate and window glass together represent about 90% of the total value of flat glass production. The building industry takes 75-80% of the output of window glass and 10-20% of the plate glass production while the automobile industry takes about 70% of normal plate glass output. This latter market has virtually disappeared for the duration, except for replacement demand and requirements for military vehicles which are insignificant compared with the huge outlet normally afforded by the automobile industry.

Thus aggressive measures were needed to promote new markets and it was here that carefully planned research and development work undertaken in the past bore fruit. Today glass serves in many fields heretofore restricted to other materials, notably metals, while new uses, which normally might require years for general application, have been accelerated by war conditions. Most important of all, glass has become more and more indispensable on the production front itself, in the form of many types of specialty glass for military purposes. Bullet-proof glass is used extensively by the Armed Forces in airplanes and vehicles; optical and precision glass is employed in gun-sights, bomb-sights, filters and many optical instruments; case-hardened glass is indispensable in naval craft for port lights and screens, for dials of navigation instruments and for anti-aircraft searchlights.

Then there is laminated safety glass, perfected to a high degree, to streamline combat planes by using a revolutionary process of "bending" it beyond anything ever required in peace time, for windshields, cabins, canopies, gunner turrets and bomber noses. "Foamglass," a new type of opaque glass that floats like cork has found wide application as the buoyant element in life preservers, boats, life rafts, etc.; additionally, it has valuable insulating properties and is widely used for refrigeration purposes. In our civilian economy, glass likewise has found a multitude of less well known though quite important uses, apart from such outstanding developments as fibre glass for textiles, glass blocks for masonry, glass furniture and numerous decorative as well as utilitarian items heretofore made mostly of metals. While all this helped to offset at least partly the severe drop in normal lines, these new outlets naturally compare in no way in importance with the lost markets of the flat glass industry.

An entirely different picture is presented by the glass container industry which has been enjoying

boom conditions as demand for glass containers reached unprecedented heights. The average production rate in 1942 rose to 99.3% of capacity from 87.3% in 1941. Unit shipments gained 14.3% and stocks on hand at the end of the year were 19.1% smaller than at the end of the preceding year. Labor supply permitting, this sector of the glass industry will contine to operate at capacity for the duration. Despite standardization of containers permitting a 30% increase in output, and although new facilities are constantly being pressed into service, many potential customers will find it difficult to obtain even a small part of their requirements. On the other hand, there is no important supply problem troubling the container makers; sufficient zinc for tops of glass jars will be available and the formerly tight situation in soda ash, a basic raw material now especially in demand for making aluminum and TNT, has improved with enlargement of producing facilities. The closure situation, once rather critical, is eased by increased use of scrap and substitutes such as plastics and paper. Hence despite possibly narrower margins due to rising costs which in the main should largely be absorbed by economies flowing from greater volume, satisfactory results for the duration appear assured.

Bright Post-War Outlook

While the war thus produced sharply divergent trends within the glass industry, the post-war outlook can be said to be uniformly good for both sectors. With the recovery of its chief outlets—the automobile and building industries, both of which promise to undergo a very pronounced revival after the war—the plate glass industry will once more be assured of steady and profitable markets which in the past were the source of substantial and uninterrupted earnings. Moreover, war-time success in developing new products and widening the use of old lines should prove the key to further important growth and development in fields hitherto barely touched, such as building construction, decoration, architectural design, household appliances and many other fields such as furniture and textiles. The secular downtrend in prices should be an important aid in securing new markets.

Similarly, the glass container industry can look forward to continued development not only in the container field proper but in many related fields in which it is interested today. The industry confidently expects to retain at least part of the newly won container markets. There will, of course be competition, not only within the glass container industry but also from paper containers which are likewise undergoing considerable expansion due to war causes. The increasingly popular "quick freezing" process of foods may possibly make inroads on all types of conventional containers but on the whole, inter-product competition is judged to remain moderate though rivalry within each major field is likely to be keen. Used to package a wide variety of products, chiefly prepared foodstuffs and beverages, the glass container field is a huge one with normal output about 7.5 billion units. Thereof food containers take close to one-third or about 2.6 billion units. Another third is used for medicinal and toilet preparations while most of the remainder is used for beverages, notably liquor, beer, soft drinks. The sales trend in the past has been decidedly favorable as about 75% of the glass containers are of the one-trip variety, hence output enjoyed a distinct secular growth reflecting such factors as population growth and new uses.

Industry Highly Concentrated

One of the outstanding characteristics of the glass industry is its concentration. In the flat glass field, three companies, Pittsburgh Plate Glass Co., Libbey-Owens-Ford and the American Window Glass Co. account for 75% of the output of window glass; together, Pittsburgh Glass and Libbey-Owens-Ford account for 90% of plate glass production. In the container field, Owens-Illinois Glass Co. accounts for about 40% and Hazel-Atlas Glass Co. for some 17% of the entire output. A substantial percentage of the container industry operates under licenses of Owens-Illinois and the Hartford Empire Co. The latter engages in the manufacture and development of machines for making glass articles. These two concerns have cross license contracts. Owens-Illinois and the licensees of the Hartford Empire Co. produce about 96% of all glass containers. While this has been a factor of strength and stability within the industry, it more recently lead to anti-trust proceedings which may or may not have important repercussions in the future.

The action, involving nine leading factors in the container field, last August resulted in an adverse Federal Court decision which is now being appealed. Thus final outcome cannot be ascertained for some time. Should the decision against the industry be upheld, which is considered a good possibility, the longer-term implications would naturally be unfavorable as it would eventually lead to increased competition. However, the large capital requirements and wide technical experience necessary for successful operation in this field, together with the well established trade relations of the existing firms are likely to discourage newcomers despite free access to patents. At any rate, it is felt that the entrenched companies should have no difficulties in maintaining their trade position. Besides, inability to obtain equipment precludes new competition during war time.

Statistical Record of Glass Companies

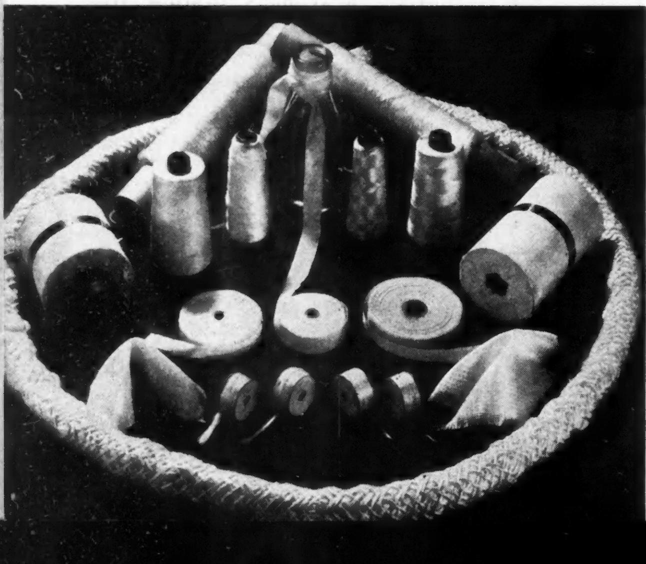
Name of Company	1936-39 Av. Net per Sh.	1936-39 Av. Div. per Sh.	Recent Earnings Per Share 1940	1941	1942	Recent Dividends Per Share 1940	1941	1942
Pittsburgh Plate Glass	5.91	4.56	6.30	6.82	5.09	5.00	5.00	3.50
Libbey-Owens-Ford	3.28	2.87	3.96	3.52	0.74	3.50	3.50	1.00
Owens-Illinois Glass	4.07	3.37	2.71	3.40	3.46	2.00	2.50	2.00
Hazel-Atlas Glass	6.21	6.05	5.98	6.63	5.69	5.00	5.00	5.00
Anchor-Hocking Glass	1.05	0.70	1.43	1.36	1.96	0.80	0.90	1.00

Glass industry shares in the past had little speculative appeal. Sales and earnings normally were rather stable, hence price fluctuations narrower than for the market generally. This, together with steady and generous dividends gave the majority semi-investment characteristics. However, they possess other attractive attributes; basic advantages which should be especially desirable at this time and lend them particular appeal. In view of future potentialities, they are not only income stocks but growth stocks as well. The industry fills a basic need, with excellent expansion prospects; additionally, among their assets are important raw material deposits, such as silica-sand, limestone and alkali properties which should afford a measure of anti-inflation protection. These advantages should well balance the low-yield factor, and at least to some extent the near-term disadvantage affecting the flat glass companies. During the recent upward movement, most glass equities have been lagging behind the market. This margin should narrow as the realization of future prospects becomes a more immediate factor. Meanwhile, the story of war-time dislocations in the industry is aptly told in the 1942 earnings reports.

Pittsburgh Plate Glass Co., dominant factor in the flat glass field, is the largest domestic manufacturer of plate glass and one of the leading makers of window glass. Flat glass lines account for 50% of total sales and some 85% of the plate glass output is normally sold to the automobile industry. Hence the company was severely affected by the virtual disappearance of the automotive market; sales of window glass were fairly well maintained as demand for war housing continued heavy. However, due to diversification of its operations, the company did considerably better than the flat glass industry as a whole, being also one of the largest paint manufacturers and an important factor in the chemical field. Despite sporadic shortages of manpower and critical materials, the chemical division expanded rapidly under the spur of heavy demands from war industries. The paint business in particular was able to more than replace its formerly important automotive outlet while the chemical branch, profiting from an intelligent policy of research, is achieving ever greater diversification, thereby laying the groundwork for a future important role in a number of chemical lines. The glass division too is getting a share of the war business, making important types of optical and bullet-resisting glass; moreover new outlets are found by substitution of glass for scarce materials, notably metals and plastics, in numerous products. While all this helps, complete compensation for the loss of the plate glass business cannot be expected and future earnings, while fairly good, will continue to reflect this fact.

With the company safely entrenched not only in the flat glass field but also in the paint, chemical and certain branches of the plastics fields, the future outlook promises not only quick recuperation of normal earning power in the post-war period but continuous growth as well. The fabrication of plastics notably should be a promising future field.

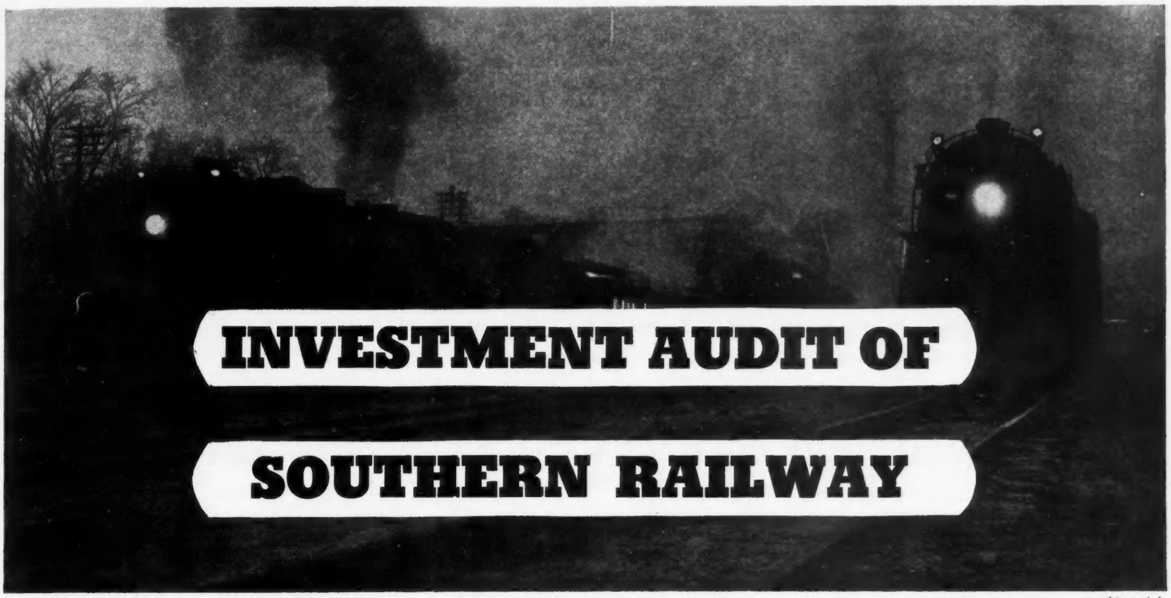
All the articles in this photograph are made from glass produced in the Newark, Ohio, plant of the Owens-Illinois Glass Co.



Fair, But Lower Earnings

Past earnings were uniformly good and dividends liberal with a record of continuous payments going back to 1899. Reflecting curtailment of normal demands, 1942 net declined to $11.24 millions equal to $5.09 per share compared with $14.99 millions or $6.82 per share in 1941. Sales fell some 17% while operating income receded about 30% resulting in a decline of tax liabilities of over 50%. This year earnings will continue below customary levels but should be fair despite rising costs. The financial position is excellent with working capital $44.70 millions versus $39.29 millions in 1941 and cash of $13.87 millions nearly equalling current liabilities of $14.32 millions. There is no funded debt. The common, listed on the N. Y. Curb Exchange, is well thought of in investment circles; however, considering the current low yield of about 3.6%, it presently lacks appeal except on the basis of post-war potentialities.

Libbey-Owens-Ford Glass Co., a leading maker of plate and safety glass and the largest producer of window glass, was especially hard hit by the suspension of automobile production and restrictions on residential building. To offset the loss of primary outlets, facilities are being adapted to the manufacture of special glass, notably optical and precision glass, and other materials for war purposes. This volume is now steadily increasing and some improvement in 1943 earnings over the sharply reduced 1942 results are anticipated. However, no adequate offset for the loss of the company's main outlets can possibly be expected and earnings must necessarily continue below normal levels for the duration. However, in view of the strong financial position, maintenance of the $1.00 dividend would not surprise. After the war, full recuperation of normal earning power can be confidently expected. Post-war sales of course will mainly follow automobile production and building activities but both these fields are expected to flourish for some time in the post-war period. Moreover, replacement demand should provide a good-sized backlog. (*Please turn to page* 106)



INVESTMENT AUDIT OF SOUTHERN RAILWAY

Nesmith

BY PIERRE R. BRETEY

The Southern Railway operates 6519 miles of line in territory predominately agricultural. Including leased lines and controlled roads, total mileage under control is 8605 miles. A major transformation has occurred in the Southern area in the 20th Century, value of manufactured goods rising from $574 million in 1890 to $6.2 billion in 1937, a rate of growth far greater than for the rest of the country.

World War I initiated the first major phase of industrialization of the South. The shift of the cotton industry from New England, together with the growth of rayon, speeded that transformation in the 20's and 30's, and World War II has accelerated this trend to an extent not generally recognized.

With the possible exception of the Pacific Coast area, the South has been the chief beneficiary of our present war effort, with 137 new industries being established on the company's lines in 1941 and 89 in 1942. New industries such as plastics, heavy chemicals, and paper, may conceivably prove permanent in character, although much of the war expansion is, of necessity, transitory. Already the Kanawha Valley is labelled "the American Ruhr."

This better than average growth and the more favorable fundamental factors already mentioned is attested by statistics furnished in Table I, indicating the more rapid growth of Southern vis-a-vis both other rails in the Southern region, as well as all Class I roads. Capitalization of Southern Railway as of December 31st, 1942 is shown in Table II.

In addition to tabulated debt, $52,932,600 bonds of leasehold estates, upon which interest and dividends are paid as rental by the Southern, are outstanding, although these bonds are not guaranteed by the Southern. Further, there are certain terminal obligations guaranteed sometime by the Southern alone, and in other instances joint and severally, totalling $68,379,333 (and £1,351,000) additionally held by English investors. Largest of these issues is that of the Terminal R.R. of St. Louis ($40,975 mil.) and the New Orleans Terminal Co. ($14 mil.). Other issues are relatively small. These properties afford essential facilities, the joint use of which is assured to the Southern by contracts. Parenthetically it should be mentioned that as late as Dec. 31st, 1939 Southern Ry. owed $27,041 million to the R.F.C. which was finally liquidated, in part through a bank loan (later paid off on December 15, 1941), and in part through sale of Mobile & Ohio bonds, and also through utilization of the company's surplus earnings.

Table III will furnish salient data relative to earnings since 1929. Analysis of tabulated earnings discloses that following the sharp drop in gross subsequent to 1929, it took a series of four years, 1932-35 inclusive, for the company to make the necessary readjustments until fixed charges were covered in their entirety. Since that period, only in the admittedly poor year 1939, did the road fail to cover charges, and then only by a slight margin (0.97 times). Responsible in part for the poor showing prior to 1936 was the heavy charges for equipment and joint facility rents — net debit — which is shown in Table IV together with other operating data (all as a percentage of gross income).

The Southern failed to purchase any equipment from 1929 through 1938, which is evident from analysis of Table IV wherein it is shown that net debits of equipment and joint facility rents mounted steadily, until these charges absorbed slightly over 4½% of gross both in 1937 and 1938. To remedy the situation, the Southern embarked on a policy of large scale car purchases and expended $13.5 millions for this purpose in 1938, and $6 million in

1939, purchasing some 8,000 new cars with these funds. In November and December, 1940, \$10.3 million was spent for cars and Diesel switch engines, and in July, 1941, \$11.2 million of equipment was ordered, although some equipment has not as yet been delivered. Purchase of equipment in these years made itself felt rather promptly since net debits declined to around 3% of gross in 1939 and 1940, and

Table III—The Financial Background

	Total Operating Revenue (000 omitted)	Available for Fixed Charges (000 omitted)	Total Fixed Charges (000 omitted)	Times Fixed Charges Earned	Earned on Preferred (per share)	Earned on Common (per share)
1929	143,183	35,452	17,323	2.05	30.21	11.65
1932	72,986	5,954	17,172	0.35	18.70 def.	10.95 def.
1933	76,148	16.571	17,036	0.96	1.22 def.	2.88 def.
1934	78,183	14,074	16,869	0.83	4.66 def.	4.46 def.
1935	82,903	15,283	16,806	0.91	2.54 def.	3.48 def.
1936	96,274	20,024	16,619	1.26	7.17	1.01
1937	98.435	17,107	16,301	1.05	1.34	1.69 def.
1938	89,419	15,846	16,344	0.97	0.82 def	2.69 def
1939	99,153	23,169	16,682	1.39	10.81	2.69
1940	105,905	23,591	16,239	1.45	12.25	3.35
1941	139,926	35,302	15,932	2.22	32.28	12.61
1942	204,605	49,084	15,695	3.13	55.65	23.41

to less than 2% of gross in 1942. Had it not been for purchase of equipment in this period, the road would have continued handicapped from an operating standpoint, its earnings probably would have been much lower, and at the same time its war traffic might not have been handled so expeditiously. Such reduction as affected in these net debits, is in the final analysis equivalent to debt retirement on a large scale, and such operating savings are available for whatever corporate purposes directors might choose, including dividend payments.

Operating efficiently was not confined solely to lower debits for hire equipment and joint facility rents. Operating ratio was reduced from 83% in 1932 to less than 56% in 1942, an amazing improvement. (See Table IV.) Likewise, repairs of equipment were expedited under the stress of war needs, so that by the 1942 year end, in marked contrast to the 1933-40 average of 20% of bad order locomotives and 9% of bad order cars, percentage of bad order engines to total ownership was 7.41% and of bad order freight cars 1.74%, lowest in the company's history. (See Table IV.)

Taxes Increasing Factor

To complete our statistical analysis, it is pertinent to note that between 25 and 30% of total revenues of the Southern is obtained from manufacturers and miscellaneous, and some 45% is received from mines, chiefly bituminous coal. Forest products account for 10% and agricultural products, formerly 13%, now has stabilized around 9%. Revenue per ton mile is high as compared with average Class I carriers, although trend of rates has been downward. In 1932 revenues were 1.327¢ per ton mile, in 1935, 1.271¢; in 1937, 1.124¢; in 1940, 1.101¢ with slightly higher rates in 1941 and 1942, 1.104¢ and 1.145¢ respectively. It would appear that stabilization of rates had finally been achieved, beginning in 1937. Importance of this fact can hardly be overstressed.

While railroad taxes until 1942 have not been as burdensome as in the case of most leading industrials, nonetheless in recent years rails have begun to feel the impact of higher and higher taxes. Whereas tax accruals for the Southern ranged between \$5 mil. and \$8.3 in the period 1932 to 1940 inclusive, these accruals began their precipitous climb reaching \$15.5 mil. in 1941 and \$41.4 mil. in 1942. This latter amount is equivalent to approximately 45% of total income available for security holders. In its 1942 report, the management cautioned its security holders to expect lower earnings in 1943. They stated that even were gross revenues to duplicate those of 1942, the combination of increasing expenses, still higher Federal taxes in prospect and extinction of excess profits tax credits should result in lower earnings for 1943.

The order by the ICC rescinding its 1941 freight rise as of May 15, 1942, should result in a decrease of gross revenues of the Southern of some \$10 million. (On an annual basis for all computations of this character). With an operating ratio of 55% this would represent a loss of some \$4.5 million in operating revenues. Taxes in 1942 were slightly over 45% of available income. The 1943 tax burden should be considerably heavier possibly reaching a figure as high as 60% of available income. Assuming a 60% tax rate, net loss to the Southern would be approximately \$1.8 million or around \$1.40 per share on the common, a negligible decline in the light of 1943 earnings of \$23.41 per share. Additionally this decrease may well be offset by an almost assured increase of 20% in ton miles for the full year, as well as lower labor costs than otherwise would have been the case, since had the ICC not rescinded existing rates, wage levels would of necessity have been increased sharply. For the longer term we believe the rate decrease contains seeds for optimism

Table I—Gross Income Compared With Other Lines and With Industrial Production

(1923 - 1925 = 100)

	Southern Railway	Southern Region	All Class I Roads	FRB Index of Indust. Prod.
1929	97	94	103	126
1932	52	48	51	79
1936	65	61	66	118
1937	67	63	68	130
1938	61	58	58	101
1940	72	67	70	140
1941	95	86	88	179

and we do not view the decision with unmitigated pessimism as is the case in many quarters.

In the depression depth of 1932, funded debt of the Southern totalled \$301,188,100 and fixed charges were \$17,173 million. Even as late as 1939 funded debt was still \$292,600 million, and fixed charges \$16,792 million. This reduction of debt was decidedly negligible. Beginning in late 1940, however, when the Southern began to make sizable inroads on existing RFC obligations (final elimination Dec. 1941), the company has embarked on a policy

of vigorous debt reduction, total debt having been reduced to $262,146 million and fixed charges to $15,695 million by the end of 1942. In the 10 year period debt has been reduced almost $40 million and charges almost $1.5 million (to which should be added savings in net debit hire of equipment).

The road is not confronted with any important maturity problems (excluding, of course, equipment trust certificates from consideration). Earliest maturity is a $20 million leased line issue—Atlantic & Charlotte Air Line Ry. 1st 4½'s and 5's due July 1, 1944. Smaller maturities of $5,265 million come due in the years 1945, 1946, 1948 and 1949. First maturity of Southern Ry. itself is the St. Louis division 1st 4's, 1951, when this $12,472 million issue will fall due.

Average gross of the Southern for 1936-39 was $95 million. Because of the favorable long-term secular trend, we anticipate that lowest post-war gross for the remainder of this decade should be $100 million at the very least. Applying our formula of 12% of gross being available for charges, there would then be $12 million of earnings to which should be added some $2.2 million estimated other income, or $14.2 million available for charges of $10 million, a coverage of 1.4 times. However, to reduce charges to $12 million annually, our formula calls for a reduction of debt of some $60 million to a net figure of approximately $200 million. Were the Southern freed from the burden of high interest

Table II——Present Capitalization

Funded Debt (including Equip. Trust Certif.)	$262,146,416
Preferred stock (600,000 shs.)	60,000,000
Common stock (1,298,200 shs.)	129,820,000
Total capitalization	$451,966,416

debt, 5% on the large 1st mortgage issue, and 6% and 6½% coupons on a portion of its Development and General mortgage issue, the company could support a larger total debt. Should the road's credit be reestablished, it could then refund these high coupon bonds to advantage. Thus these high coupon bonds of themselves contain the seeds of a solution of Southern's debt problem. Meanwhile, we may ask whether the Southern can reduce its debt to $200 million in the not too far distant future, and by so doing reestablish its former credit? This is an especially pertinent question in the light of the inauguration of dividends on its preferred and common stocks in 1942 necessitating an outlay of some $5,596 million annually on the basis of dividends already declared. Let us turn to Southern's balance sheet for a possible answer.

As of Nov. 30, 1942, Southern had cash and temporary cash investments of some $47.3 million. However, after deducting accrued taxes, gross free cash was $21.2 million, just about sufficient to maintain adequate working capital position (we consider as conservative retention of 1½ years of fixed charges for emergencies). However, since the road did have over $33 million left over after charges in 1942, and might well have in 1943 $20 million surplus over and above charges in 1943 (after making due allowance for dividends, higher taxes, and lower rates, etc.), it would appear that as much as $20 million might again be employed to retire debt in 1943, as was the case in 1942 when $22.1 million of debt was retired. Thus far one third of the way

Table IV—Operating Data (Gross)

	Equipment and Joint Facility, Rents, Net Debit	—Maintenance— Way of Structure	of Equipt.	Transportation Ratio	Operating Ratio	Bad Order (% of Total) Locomotives	Cars
	(Per Cent)						
1932	2.29	14.23	23.02	39.40	83.39	13.3	15.2
1933	2.44	10.79	17.87	35.30	70.53	20.1	9.1
1934	2.81	12.71	18.52	36.63	74.34	24.2	10.3
1935	3.11	12.13	18.44	36.58	73.52	23.4	11.5
1936	3.81	11.71	18.11	34.55	70.03	23.3	10.6
1937	4.51	12.29	19.47	35.44	72.95	21.4	6.6
1938	4.60	11.82	16.99	36.16	71.12	19.9	7.7
1939	2.83	11.83	16.80	34.19	68.59	15.3	4.9
1940	3.01	12.35	17.00	33.87	68.81	15.7	7.2
1941	2.17	10.00	17.46	31.09	63.28	11.9	2.7
1942	1.52	9.61	15.09	26.79	55.59	7.41	1.74

has been traversed toward the goal of debt reduction as outlined. We are beginning to see increasing signs that Southern can continue to retire $20 million debt annually for several years, and thus it is entirely within the grounds of reasonableness to expect that the Southern may yet attain a reduction of its debt to our figure of $200 million thus reestablishing a large measure of its former high credit standing.

Status of Securities

The debt of the Southern is concentrated in two large issues, the 1st 5's of 1994 of which there are $91,997 million outstanding and three series of Development and General mortgage bonds, due 1956, of which there are approximately $95 million outstanding. In addition, the St. Louis division 1st 4's of 1951, one of the earliest maturities of the system, is outstanding in the amount of $12,474,000.

The 1st mortgage 5's are rated B-1 plus, by Standard and Poor's, and at current levels of 99, offer a yield slightly in excess of 5%. Since we believe that general economic conditions will permit of reduction of debt along the lines as outlined, we anticipate gradual recognition of this fact by the rating agencies, and subsequent to an increase in rating, the bonds might well be refunded to advantage. We consider these first mortgage bonds extremely attractive.

The Development and General bonds are a junior mortgage. Three series are outstanding, 4's, 6's and 6½'s. All are rated B. They are distinctly a second grade bond on the basis of past record, yet have merit in terms of future prospects as outlined herein. Ten year average of overall fixed charge coverage has been 1.13 times. Due allowances for the 4 year period, 1932-35 inclusive, must be made. Comment has already been furnished for reasons for poor earnings in this period. (*Please turn to page* 111)

Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

Pruned Payrolls in Federal agencies are becoming an actuality after years of campaign promises and legislative lip service. Abiding by Congressional mandate, bureaus today have slashed their potential hirings 250,000 under the number first planned; additionally are separating 41,631 persons from the payroll to save salaries and wages exceeding $80,000,000 annually.

World Trade in the post war era is being given a substantial, if currently unrecognized boost, in the wartime expansion of the merchant marine. Merchant ships built in 1942 for the U. S. Maritime Commission surpassed all existing records, and will go even higher this year. Despite sinkings, the ten million tonnage of pre-Pearl Harbor has been dwarfed. March, alone, added 146 ships, 1,516,000 tons.

Washington Sees:

However praiseworthy the objective, the fact seems bedded in Washington thinking that Paul V. McNutt's "job freeze" order is without warrant of law and that to let it stand unchallenged will invite still greater departures from "government by statute."

The inescapable truth is that Congress has passed no legislation for the control of manpower and the Administration has asked for none. Penalty provisions boldly set out in the McNutt order actually were grabbed from statutes having to do with building the army and controlling inflation.

It would be a curious twist if the new regulation were to accomplish exactly the opposite of what it was intended to do; if it should move Congress to clear the legislative-administrative air by passing the Austin-Wadsworth (National Service) Bill. The White House opposed that measure on the ground that compulsion should be avoided; then indorsed the McNutt order which rests upon compulsion.

But Senator Austin has a theory he will present to Congress, summed in these words: "The people are getting tired of indirect pressures. They would prefer a candid open declaration of their war liability, made through their representatives in Congress and applying to all."

Small Plant production is getting under way under the spur of grassroots insistence reflected in Capitol Hill demands. Just placed are contracts with 119 business firms in the Illinois-Indiana-Iowa-Wisconsin area. Orders total $15,713,000—relatively insignificant, but tremendously important to smaller industry, both in dollar volume and implication.

Optimistic Note for the West Coast will be the news, soon to be announced, that vessels taken over by the Navy in the early days of the war will be returned to their owners and restored to fishery. That means the situation is well in hand on the Pacific Coast territorially and extra-territorially, for many of the vessels dock at Alaskan ports. It means some measure of relief, too, in the tight salmon supply situation.

Tax Reforms recommended by the Intergovernmental Fiscal Relations Committee of the Treasury thus far have been received by State administrators as bookkeeping spinach to be duly consigned to Hades. Demarking the fields of levy between state and federal governments is theoretically feasible, administratively impossible. The most serious overlap, income tax, was passed over lightly.

Price Stability as a substitute for wage increase—organized labor's proposition for stabilization of the national economy—so far has fallen on deaf agricultural ears. Both blocs have played a game of compensation at expense of their's and other people's dollar; one demand generating another, with neutralizing effect—the more they ran the deeper they buried their roots in the same place. They invited, and got, "hold-the-line" economy. Surprisingly enough, it's working.

"Small business" is finding itself injured by a well-intentioned, but misdirected, attempt by O P A to extend assistance to it.

Meat ceilings, maximum prices on hosiery, fix higher levels which may be charged by smaller stores than by the larger outlets. And O P A is widely advertising that margin.

The result: Notice to the housewives that lower prices (in today's price market) will be found in the larger stores — chain stores, actually a target of the Administration in the past, for example.

Allocation of merchandise may solve major problem of little business, namely, stock on the shelves. End of 1943 will see 20 per cent of men and women now in the distribution and service industries shifted to production and the armed forces.

The shrinking of supply of civilian goods must be brought closer to the consumer, and this means favoring the smaller retail outlets by giving them more goods to distribute than past performance entitled them to have. Such allocation is revolutionary, but realistic, say Federal authorities.

Wayne Chatfield Taylor, Under Secretary of Commerce, prime backer of the idea, sums it: "Let's give our small businessmen a chance to do the jobs they are best qualified to do."

Arthur D. Whiteside, Dun and Bradstreet president, has returned to government service and it's a good omen. When N R A was bogging down, Whiteside took a key post and bolstered it; he did the same thing in early days of W P B as consultant to Donald M. Nelson when Nelson directed purchases.

Whiteside's appointment as vice chairman of W P B in charge of civilian requirements, mean end of "bedrock economy" and other textbook approaches to national problems. It means businessmen are taking over matters of business; henceforth young lawyers will concern themselves with Blackstonian questions.

More importantly, it means that civilian supply is taking on added importance and has reached the dignity of a full-fledged section within the War Production Board. That, in turn, tokens gradual return of plant to home-front supply and confirms belief that the war production program is well in hand, clicking.

O P A has a new legal weapon with which to fight black market operations. A District of Columbia federal judge has declined to overrule an order by the price administrator closing down a gasoline filling station for 30 days, and the jurist has decreed "substantial evidence" is ground enough for the government to move in.

Proof "beyond a reasonable doubt" is the yardstick for conviction in most punitive cases; proof by "a fair preponderance of all the evidence" in civil actions. But offenders against the administrative regulations of O P A are guilty upon a showing of "substantial evidence."

The Treasury is counting its income tax returns and making plans to collect in one fashion or another, the payments of 38 million individuals, about 19 millions of whom filed in March for the first time. Collections to this point are running 40 per cent ahead of last year. But there's an ominous note from the Treasury: a 40 per cent increase is too small in dollar terms to contribute substantially to the alleviation of inflationary pressure.

Master juggler of the age, Brig-Gen. Lewis B. Hershey, is keeping the Selective Service classification balls in the air and no

one (some suspect not even Hershey) knows where they ultimately will fall. Meanwhile Paul V. McNutt seems one step ahead of Congress on job freezes.

Which suggests to industry the urgency of completing manning tables in readiness to meet either contingency — an order by Hershey that a given employee must go, or an order by McNutt that he cannot be shifted to the job he's best able to do. Manning tables, available to W M C regional offices, are a W M C invention. And W M C is the overall agency of a group that includes Selective Service.

Just-in-case note: "The ArmyCook," recent publication of the War Department is available to the public. It comes in handy if, for instance, 100 guests should chance in for lunch. Potato salad for that number, says the booklet published at taxpayers' expense, calls for 25 pounds of potatoes, five pounds of celery, two pounds of onions, two pounds of bacon, one quart mayonnaise, one head lettuce or parsley.

Inconsistency keynotes political party utterances as they enter the stretch and head down toward the Presidential election tape. Harrison Spangler, G O P head man, professes to find national disgust with F D R's domestic and war conduct, forecasts total victory for his party in 1944. But despite that certainty he asserts a Fourth Term (which he says won't be achieved) is threat to national well-being.

Frank Walker, democratic national chairman, seems equally confused in his thinking. "Let's adjourn politics," says Walker; "let's have a short campaign." And in the same speech, he announces reappointment of Charles Michelson, spark-plug of party thinking for 15 years, to head up, prolong, campaign publicity.

Ground swelling in labor circles is a demand that the War Labor Board be reinstated as a wage policy making entity, or abolished. The board is circumscribed by too many regulations and too many regulators, says the C I O. And the facts here seem to be with organized labor.

W L B was set up to adjust wages, correct inequities. Labor can point to the fact that it is now a "stop wage increase" institution. It's futile to go to W L B with a wage issue, say the labor leaders as they point to a long line of recent decisions. They're right, White House soon will admit. W L B shortly will be rendered even more impotent, will lose its key men.

Born of a world financial catastrophe when men grasped for straws, the Presidential power to devalue the currency has been destroyed at least until the next Congress convenes, probably forever.

Senator Robert A. Taft challenged the law in his lawyer capacity while still in private life. He lost; but won. The decision went against him judicially, but gave him prominence that sent him to Washington.

He had his revenge. Leading the Senate floor fight against renewing the power to tinker with the dollar, Taft put over — in eight minutes — the lethal blow.

Irritating questionnaire and form-filling tasks demanded by multiple federal agencies are on their way out but classic illustrations still can be found. One Cleveland firm shipping 47 packing cases for lend-lease filled out 1,128 pages of forms, and made 32 copies of the invoice, Congress has been informed.

Business has left itself "open" in some cases and defense is not readily available. Instance: victory gardeners may obtain rakes for their work, but must choose from among a mere 76 types — not the 324 types industry formerly placed on the market.

Organized labor had its ears pinned back when the House by overwhelming vote enacted the Hobbs anti-racket bill aimed at union abuses. It was the first legislation opposed by unified A F L-C I O strength to pass the lower chamber since F D R moved into the White House. And the Senate seems in the mood to concur. Less importance than its language connotes to casual readers, the bill "serves notice."

Which Stock Groups Will Lead? Which Lag?

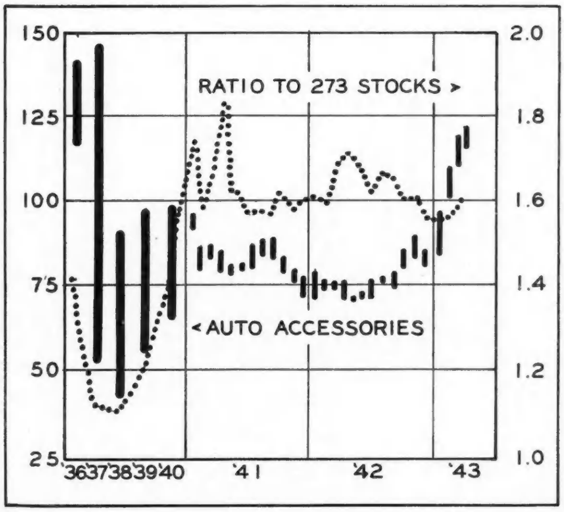
Comparing the Backward Groups with Those Groups Now Ahead of the Market

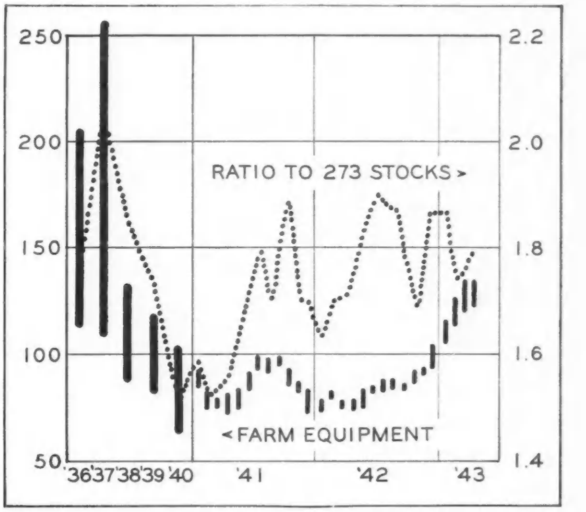
BY FREDERICK K. DODGE

The terms "Bull Market" and "Bear Market" are often used as though they describe the action of the great bulk of industrial groups. Actually there has never been a market in which whole industries—and important ones at that—have not deviated far and wide from the average trend. Even in the heyday of the bull market of the wild late twenties, when the future earning power of companies was capitalized many times over by incurable optimists, such industries as textiles and lumber did badly. In the worst phases of the depression of the early thirties, the moving picture stocks surprised everybody by their movement away from a chronically declining market.

This variability among stock groups has been just as frequent in recent markets. Chemicals, aircraft and petroleum, for example, have moved steadily away from the averages, enjoying almost continuous buying, whereas steel, machinery and non-ferrous metals, despite pretty good war earnings, have been relatively disregarded. Perhaps the reasons which have impelled investors to disregard superficial aspects of industrial earnings, can best be studied in six secondary, but important market groups, which we have chosen to illustrate the complex factors determining present and future market appraisals.

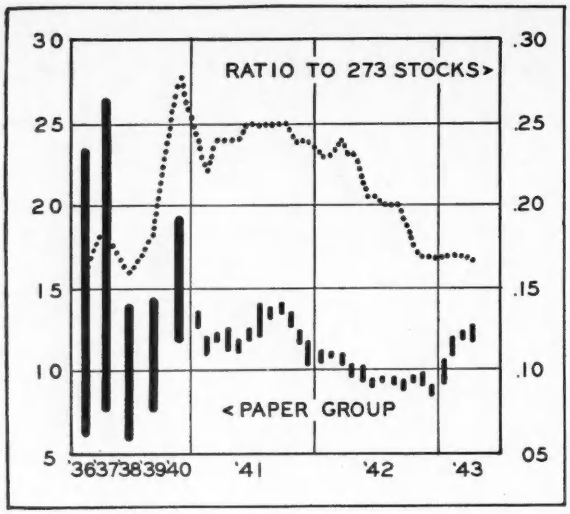
Three large groups of common stocks have outstripped the average and nearly come back to their 1937 highs, to wit, automobile accessories, mail order, and, paradoxically enough, tires and rubbers. Three other groups have been well in the rear of the market, railroad equipments (despite their high prevailing earnings) paper manufacturers and, despite





the apex of farm buying power, the farm equipment makers. These are large groups, intimately connected with the central movement of industry and trade. Yet they do not agree with the general trend of shares based on the central movement of industry and trade. Are they correctly appraised? Should the investor ratify the market neglect or market favoritism, or should he anticipate a changing situation?

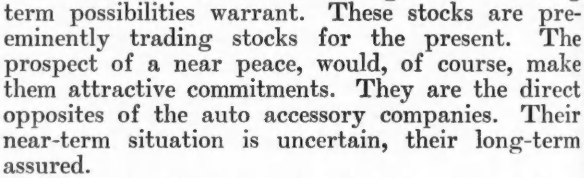
For the duration, the automobile industry is converted to war uses. The automobile accessory companies have shared the fate of their client industry. They are producing primarily for war: they face the usual question upon which basis they may renegotiate their contracts. Having been transformed from their primary purpose, they have to contend with not only the costs of their own transformation to normal production, not only their long-term earning power, but also, the length of time that it will take the automobile factories to resume civilian production. A third and still more important question relates to whether their specific products will enjoy the same market after the war. For example, if cars are made of lighter metals, use aviation gasoline, be



manufactured to please a public that has learned to conserve cars better, then both the volume of their sales and the utility of their special production must be affected. At this writing there is little to warrant the belief that the automobile industry will be back to full civilian production before 1945, and perhaps not until later. There is no clear indication whether their product will resemble the car of pre-war days, whether the mechanical aids and parts used will be made of similar materials, or whether the proportions of these materials will be even roughly similar to the past. Certainly, a short war diminishes the possibilities of radical changes in material, size, design, fuel: a long war, however, somewhat increases the uncertainty of a resumption of former production methods. The auto accessories companies, as a group, have benefited from the assumption that their present creditable earning power assures their attractiveness until peace, and that thereafter they will be in their position of pre-war contractors with the automobile corporations. There is no certainty that they will have the best of both worlds. In view of this uncertainty, they should be appraised very largely on their early prospective earning power and on their taxation redemption possibilities. Their long term earning power should not be overdiscounted. They are not likely to continue to outdistance the market average. But this does not have early bearish implications. For, even if they fail to make important earnings gains, any wide upswing in stocks will redound to their advantage. Therefore, after profit-taking, a partial switch into promising laggard groups, seems wiser policy. Here and there, of course, a stock like Electric Auto-Lite, and perhaps a few others, has attractions on its own. But, while the auto accessories group remains sound, its relative market superiority is likely to narrow down. Its quiet market action lately shows that the favorable aspects have been well priced.

The two leading mail order companies, Montgomery Ward and Sears Roebuck, are, strictly speaking, no longer to be considered as such. They are owners of large chains of department stores, some of considerable size. Their merchanting is composed of two elements, whose costs and attractiveness vary greatly from each other. Skilled labor elements, for example, count far more in the purely retail end, where personal service is a factor of sales. So far sales have held up well. If they are below the peak of "hoarding" purchases last year, they are nevertheless excellent as against a five years average. It is self-evident that the policy of discouraging durable goods purchases, the priorities affecting durable goods shipments to the mail order houses and the frowning on installment sales, have been limiting elements. The large dependence of these companies upon purchases that call for a sizeable investment, such as washing and sewing machines, refrigerators, etc., has been compensated for by the stocking up of immediate consumption goods due to the increased purchasing power of the civilian population. As measures are taken to cancel excess purchasing power, as the range of merchandise is further restricted, as labor shortages increase along with miscellaneous costs, it is obvious that once inventories are drastically reduced, that there may be a decided slump in sales and a still steeper fall in earning power. If then, we face a long war, the attraction of mail-order stocks will be limited to their undoubted excellent peace prospects. But, marketwise, it is likely that a series of discouraging and downward-tending earnings statements, may reduce the market popularity of these first-rate investments. Hence, a policy of lightening commitments on strength is logical, since the market is almost certain not to be as far sighted as the long term possibilities warrant. These stocks are pre-eminently trading stocks for the present. The prospect of a near peace, would, of course, make them attractive commitments. They are the direct opposites of the auto accessory companies. Their near-term situation is uncertain, their long-term assured.

The continuing prosperity of the tire and rubber companies in war time belied the fears of those who thought that the invasion of Malaya would curtail their profits for the duration. The surprising adaptability of these companies to war production,

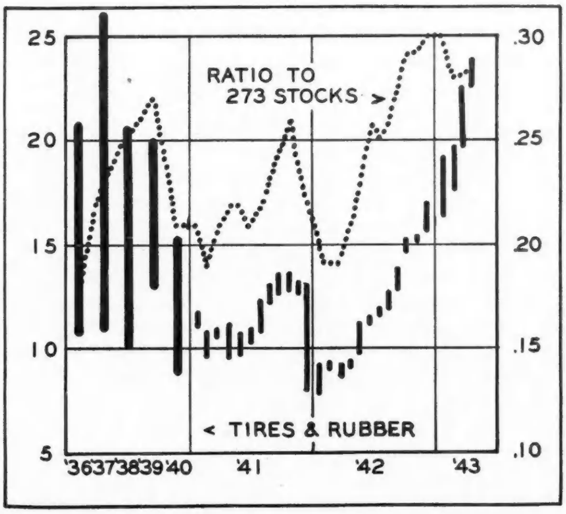


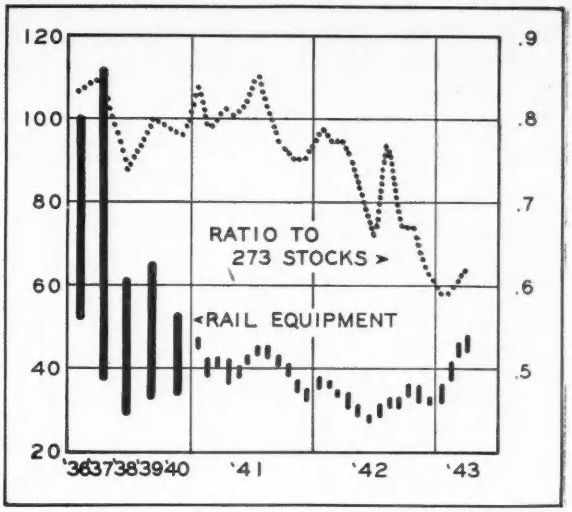
has brought about investor confidence that they are as flexible as their products, and that no matter what the shocks of return to a peace economy, they can be expected to show up at least as well as at present. Unlike most war industries, neither renegotiation nor excess profits taxes have operated to dampen investor confidence in the continuance of present earnings levels. Hence they have appeared to many investors as the perfect war-peace hedge stocks and their market action has been consequent on this belief. Apart, however, from the cost of changeover, the very foundations of the industry are to some extent unpredictable.

The change in automobile types may, of course, seriously affect their sales. The tire user has learned prudence. Good management of tires, recapping and retreading may continue, and with it goes the largest profit margins of the tire companies. Waste, carelessness, abuse, have been the largest factors in tire production turnover: a long war may change consumer habits so that the American automobile driver may come to be as careful as the French or British. The increased variety of popular uses for rubber products, however, may compensate for this tendency.

Effect of Synthetic Production

Naturally, most long-term attention has been directed to the production of synthetic rubber. It has been estimated that some production of this type maye compete with natural rubber at 15 to 20 cents a pound, delivered. The price of crude rubber has varied from under 3 cents a pound to 78 cents: since dollar stabilization in 1934, 17 cents has been the central figure. If the 20 cents theory is true (it is not yet proved) synthetic rubber is bound to play a large part in the calculation of post-war profit. It requires an enormous plant investment but it reduces the former need for a large inventory both because of the long transit from Malaya and as a hedge against wide crude rubber price swings. It is certain, however, that even if synthetic production is more costly than natural rubber, the national





safety requires that a plantmaking capacity for it be established, on a scale to take care of minimum national requirements. The cost of this synthetic rubber establishes an upward limit to crude rubber prices.

The new sources of supply of raw rubber from Africa or Brazil are too distant, in time, to be reckoned in the calculation. Hence considering the greater length of production time for synthetic rubber, the increased durability of the new product, lessening turnover, the uncertainty as to the size of the consumer backlog, the unaccountable costs situation in production, and possible basic changes in automobiles, it would be best to lighten commitments in rubber stocks but only on strong markets. The sharp rise in quotations since the lows of 1942, have taken care of the present and prospective good points of the companies, now doing better than ever before. There is no need to pay a market premium for the unknown factors, in addition, since the constructive factors may be diminished by the foregoing considerations.

Practically all market advice has been unfavorable to the rail equipment companies. They are today war producers, but, unlike the tire and rubber companies, their present improved earnings showing is not thought to be compensated for by peace-time prospects. The rails are working at topload. They are performing this maximum task with largely antiquated equipment. They are kept in the best condition in years, but their use is inordinate. The great majority of freight cars are obsolete in size, design, material composition. The passenger cars along most lines, apart from the featured express routes, are in a poor condition. They lack proper ventilation, are made of wood in large part, have antique upholstering, and so on. Yet the newer trains, of the *El Capitan* type on the Sante Fe, indicate the possibilities for ordinary coach travel. The Diesel locomotive is not widely employed: nor are most cars and locomotives employing modern lightweight metals. The railroads are in an excellent cash position. Some rail (*Please turn to page* **110**)

FOR PROFIT AND INCOME

A Period of Uncertainty

The writer of this column assumes that we are in a great bull market in which most stocks eventually will sell higher—perhaps a great deal higher. He feels, however, that there are certain uncertainties which obscure the immediate trend; and that he has no way of estimating with any degree of accuracy what the effect of these imponderables will be on prices during the middle part of 1943.

The things in mind are intangibles. Among them are (1) the possibility of some less favorable war news this summer from the Pacific, (2) the likelihood that Hitler will make one more great stab for victory, such as the Kaiser made in 1918, (3) the possibility that higher personal income taxes and corporation taxes may make an impression on investment sentiment, and (4) the risk of a change in the concensus about the post-war business and earnings outlook. A combination of two or more of these things, and the possible addition of some surprise ingredients, could result in a fairly substantial retracement of the very large gains sustained during the past year. For these reasons our comments on individual stocks in these pages will be increasingly selective.

Railroad Per Share Net

Historically, railroad shares still look cheap. The Dow rail index at around 34 compares with 35 in September, 1939, when railroad earnings and railroad finances just can't be compared with present statistics. The rails sold at 54 in August, 1937; at 64 in March, 1937; at 55 in December, 1936; at 56 in July, 1933; at 39 in September, 1932; at 157 in April, 1930; and at 189 in September, 1939 when most roads were earning less per share than at present.

In 1943, the earnings of roads like Atchison, Atlantic Coast Line, Erie, Pennsylvania, Reading, Southern Railway and Union Pacific will be smaller than in 1942, due more to the exhaustion of EPT credit carryovers than to the ICC decision creating moderately lower rates. Roads like Great Northern, New York Central, Southern Pacific and Texas & Pacific will earn moderately less because of partial exhaustion of EPT credit carryovers. There won't be much change in the earnings of Chesapeake & Ohio, Louisville & Nashville, Nickel Plate, Norfolk & Western and Virginian, for they were in the high EPT brackets last year. The per share earnings of Pere Marquette, Illinois Central, Missouri-Kansas-Texas and Northern Pacific probably will actually be higher, since there still are EPT credits to be absorbed.

Cigar Companies

Cigar shares are not speculative leaders, and a lack of growth characteristics in the pre-war years caused them to lose some of their investment appeal. The current earnings of the industry, however, are excellent. First quarter earnings were ahead of a year ago. It is making a much

Insurance Stocks Seem Overvalued

War conditions have increased an already definite tendency for underwriting profits of fire and casualty insurance companies to decline. These profits, for many years almost as important as investment income, are down to an almost vanishing point. Hence the differential over investment trust earnings has grown steadily less, and is now almost extinguished. But, the year 1942, on which last underwriting profit statements are based, did not, at first, witness large cancellations, increased fire losses, and, above all, the great reduction in automobile insurance. It would not be surprising to see underwriting operations conducted at a loss for 1943 and even 1944.

Continental Insurance at 48, with dividends of $2.20, and earnings of $2.08, yields 4.58%. Lehman, with dividends of $1.25 at 29 yields about 4.31%. Any advance in equities would be as promptly recorded by Lehman as by Continental, whereas Lehman does not have to face the possibility of losses from insurance operations. Until premium income shows a tendency to revive, it is advisable to concentrate on investment trusts of equal quality. A cut in the dividend rate of conservative insurance companies is possible if present underwriting tendencies continue. Any such action would be quickly reflected in stocks which sell, as insurance companies always have, primarily on an income basis.

better war-time showing than the cigarette business which is having trouble with price ceilings, high leaf costs and heavy working capital requirements. Both Consolidated Cigar and General Cigar are still selling below their net working capital, and both promise to pay better dividends in 1943 than in 1942. Consolidated Cigar $6.50 prior preferred stock at around 100 looks like a very good yield investment for one who wants to obtain a high return. The dividend is being covered by a very wide margin; and after prior preferred and preferred dividends the company earned $2.24 a share in the common in 1942, $3.43 in 1941 and $2.27 in 1940. The common now sells around 17½ and paid $1.50 a share last year. It is a more speculative stock than General Cigar common which has paid dividends in every year since 1909. The latter stock is analyzed in detail on page 90.

Sugars Not Inflated

During the past 10 or 12 years most of the Cuban sugar companies have been reorganized. Capital structures and fixed charges have been greatly scaled down, and in some cases all bonds have been eliminated. Last year, the sugar industry had a "good" year, the first in a long time; but this year's earnings will be smaller due to lower quotas and less satisfactory prices. Earnings, however, will not completely disappear; and financial positions will remain much stronger than in the recent past.

Sugar shares, especially Cubans and Dominicans, are interesting because (1) the American beet sugar companies will produce much less sugar this year on account of the labor situation, (2) competition from Java and the Philippines has been cut off, (3) they produce the purest and one of the cheapest energy foods and can greatly increase output to feed a hungry world, (4) due to proximity of the West Indies to United States and Britain they can supply their markets with the use of less precious shipping than any competitors, and (5) considering how much capitalization has been scaled down, the companies are selling in the market at very low prices in relation to past levels.

The ones which have the greatest appeal, perhaps, are West Indies Sugar and Cuban Atlantic Sugar. These stocks, if the holder will be patient, probably have unusual possibilities in spite of the fact that they have advanced materially from their 1941 lows. They must be bought, however, on the basis of what they are going to earn in 1944 and 1945, not on the basis of probable 1943 earnings.

Comment in Brief

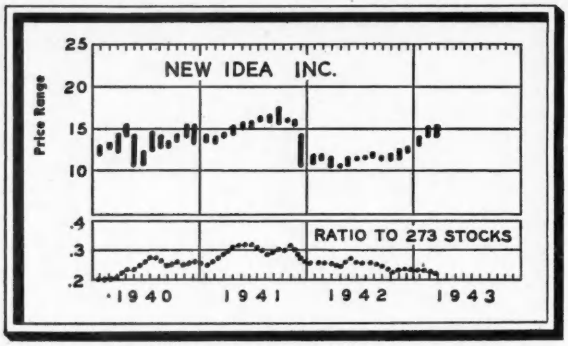
In some quarters it is thought that Dresser Manufacturing may continue its expansion by acquiring Sullivan Machinery . . . There has been some good quality long-pull buying in McCord Radiator & Manufacturing class B stock at around 3 to 3½ on the theory that this company has an aggressive management and will make good progress after the war in space heating as well as in the manufacture of gaskets . . .Those who have been suggesting Barber Asphalt at much lower prices have not lost any of their enthusiasm; they contend that the company's asphalt and petroleum reserves are enormous in relation to its small capitalization and that the new Reiber management is likely to build a strong oil company . . . The favorite reorganization rail bond of one of the leading experts in this field is St. Louis-San Francisco 4½'s, 1978, now around 33; it is contended that these bonds should get new securities worth around 40, and in the meantime perhaps pay as much as 15 or 18 points in cash interest . . . Those who favor the railroad equipments are talking a good deal about post-war export demand for locomotives and rolling stock, and continue to say more about American Car & Foundry than some of the rest . . . Washington people say we should begin to watch for production peaks and curtailments in some branches of the munitions industries; but that shipbuilding will be busy for a long time . . . Incidentally, last year was the first in which the shipbuilding industry was the biggest customer of the steel mills . . . Much optimism is heard about a better supply of rubber for automobile tires, which is good news to holders of tire shares; rationing boards say the tire situation is easier . . . The Automotive News hears that Boeing Airplane is considering entering the automobile manufacturing field after the war.

Effects of Freight Rate Increase Suspension on Railroad Earnings*

Name of Railroad	(1) Estim. 1943 Freight Rev.	(2) Estim. Rate Reduc.	(3) Estim. Tax Saving	(4) Indic. Decrease in Net Inc.	(4) Indic. Decrease	Earn. in 1942
	$ Million				$ Per Share	
Atchison, Top. & Santa Fe	341	13.7	12.3	1.3	0.54	27.79
Atlantic Coast Line	99	3.9	3.6	0.36	0.42	27.46
Baltimore & Ohio	317	12.7	5.6	7.1	2.76	16.77
Chicago & East. Illinois	21	0.7	0.6	0.12	0.36	5.53
Chesapeake & Ohio	197	4.7	4.2	0.48	0.06	4.25
Chicago, Great Western	27	1.1	0.48	0.6	0.18	4.83
Delaware & Hudson	51	1.7	0.7	0.9	1.80	9.26
Delaware, Lack. & Western	68	2.1	1.3	0.8	0.48	3.05
Erie	141	4.1	3.7	0.36	0.14	5.06
Great Northern	172	5.5	4.9	0.6	0.24	11.63
Gulf, Mobile & Ohio	37	1.4	1.3	0.12	0.19	4.32
Illinois Central	177	7.1	4.2	2.9	2.10	11.86
Kansas City Southern	35	1.4	1.3	0.12	2.40	3.34
Louisville & Nashville	164	5.3	4.8	0.5	0.50	16.59
Missouri-Kansas-Texas	56	2.3	0.9	1.3	1.70	1.50
Nashville, Chat. & St. Louis	29	0.9	0.8	0.12	0.48	16.87
N. Y., Chicago & St. Louis	102	3.2	2.9	0.4	1.10	19.34
N. Y. Central	514	20.5	18.5	2.0	0.30	7.61
Norfolk & Western	151	3.6	3.2	0.4	0.24	14.94
Northern Pacific	121	4.8	1.9	2.9	1.20	6.57
Pere Marquette	48	1.9	1.6	0.36	0.84	5.30
Pennsylvania R.R.	730	23.4	21.0	2.4	0.18	7.71
Reading	109	3.5	3.1	0.36	0.24	8.92
Southern Railroad	188	7.5	6.8	0.7	0.60	23.41
Southern Pacific	440	17.6	15.8	1.8	0.48	21.28
Texas & Pacific	43	1.7	1.4	0.24	0.60	20.17
Union Pacific	339	13.5	12.2	1.3	0.60	26.14
Virginian Railway	31	0.7	0.6	0.12	0.12	2.76

*—Computed by Moody's Stock Survey. (1)—20% more than in 1942. (2)—For period May 15 to Dec. 31, 1943. (3)—90% rate used for companies for which excess profits liability is indicated this year. (4)—Amounts shown may be doubled if 81% tax rate (rather than 90%) used for companies subject to excess profits tax.

Six Profit Situations With Good Dividend Yield



NEW IDEA INC.

BUSINESS: One of the smaller factors in the field, this company, organized in 1920, manufactures a line of farm implements and equipment consisting principally of the lighter types. The output is sold through retail implement dealers throughout the Central and Eastern States, and some distribution is had in the Southern and Pacific Coast States through a few large distributors. The concern made good progress in a normally highly competitive field, dominated by a few very large implement makers, and managed to treble its sales since 1935 but increase in net income occurred at a slower pace reflecting the competitive character of the business. However, per share earnings were consistently good, aided by a small capitalization. To build up working capital, the concern adopted a rather conservative dividend policy which has been an important factor in its development.

FINANCIAL POSITION: The company has a strong current and cash position and is thus well able to withstand the restrictions and dislocations engendered by the war. A substantial inventory on hand prior to the industry-wide curtailment by the WPB of farm machinery production enabled the company to show a moderate sales increase in 1942. Receivables, normally an important item in this business, shrank to $78,914 from $425,700 in 1941 due to an unusually large number of cash sales and good collections, a result of rising farm prices.

OUTLOOK: With inventories now sharply reduced and restrictions on operations continuing, 1943 sales are bound to recede although the extent of recession depends on how company will be affected by the recent partial lifting of restrictions in the interest of higher food production. This will probably determine future dividend policy as well. The longer term outlook holds promise of further growth as post-war demand for farm equipment is likely to be very considerable in view of current inability to replace much of the worn-out equipment.

MARKET ACTION: With sales and earnings primarily depending on farm income, the stock displayed rather less than average volatility, reflecting artificial stabilization of farm income during the thirties. Though capitalized conservatively, the capital leverage factor was largely offset by the competitive nature of the business, retarding gains in net despite steadily rising sales. During the recent advance, the stock has not kept pace with general market. Higher volatility is probable with the return to normal business when the leverage factor should become increasingly operative as the result of better margins in the wake of heavy demand.

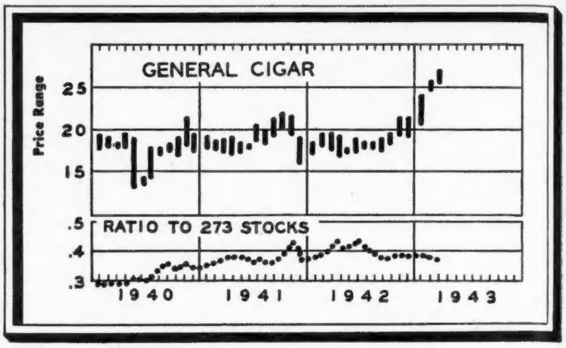
COMMENT: Recent price—17¼. Good demand for the company's products in the immediate post-war years appears assured; longer term business will fluctuate with farm income and competitive trends within the industry.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net per Share	Dividends	Price Range
1934	0.967	D0.011	D0.80	0.60	....
1935	2.452	0.350	23.37	1.00	....
1936	3.660	0.557	37.18	15.00	....
1937	5.107	0.756	2.78	3.35	22¾ - 11¼
1938	4.344	0.670	2.47	0.80	17 - 10
1939	4.006	0.593	2.18	1.25	14 - 10⅛
1940	5.268	0.719	2.64	1.60	15½ - 10½
1941	6.375	0.789	2.90	1.35	17½ - 10½
1942	6.567	0.689	2.54	1.10	13 - 10¼

D—Deficit.

Thumbnail Stock Appraisal



GENERAL CIGAR CO., INC.

BUSINESS: This company, a pioneer of the machine-made cigar industry, is one of the leading domestic cigar manufacturers with the preponderant portion of its output falling in the low-priced field. It makes, and distributes on a nation-wide basis, such well known brands as White Owl, William Penn, Van Dyck and the more expensive Robert Burns line. The sale of White Owl cigars alone accounts for over 50% of total volume. The Company has ten factories and 65 leaf tobacco warehouses. Its manufacturing process is highly mechanized, permitting good cost control and hence successful competition with other nationally distributed brands. Except for rising tobacco prices which late in 1942 were balanced by a general increase in cigar prices, the concern has no particular raw materials problem as its products are mostly made from domestic leaf. An adequate supply of imported wrapper tobacco is on hand, and in any case, domestic substitutes are available.

FINANCIAL POSITION: Aided by unexpended depreciation, working capital has risen gradually since 1934 despite dividends in excess of earnings. Cash recently declined because of rising inventories but nevertheless remained large and in 1942 showed a small increase. The company has an excellent dividend record with payments going back to 1909. Net profits last year declined to $2.36 per share from $2.79 in 1941, largely due to higher tobacco prices which only since November 1942 were offset by higher selling prices; the full effect of the latter should be reflected in 1943 results.

OUTLOOK: The pronounced war-time rise in consumer buying power indicates continued excellent demand not only for the popular brands but the high-priced products as well which will be an important aid to maintenance of profits despite rising labor costs. Normally, cigar sales fluctuate more widely within the business cycle than other products but for the duration, demand can be expected to remain more stable than would usually be the case. Post-war demand is conditioned by the trend of consumer buying power and would appear to be difficult to anticipate at this time.

MARKET ACTION: Being one of the less active equities, the stock in the past displayed less than average volatility, one of the reasons being the company's liberal dividend record despite fluctuating earnings. Today, the common is still 50% below its 1937 high while our Combined Index is 40% below that high. Considering the attractive yield (about 9%), appreciation potentialities exist which, while perhaps slow in materializing, should not be ignored.

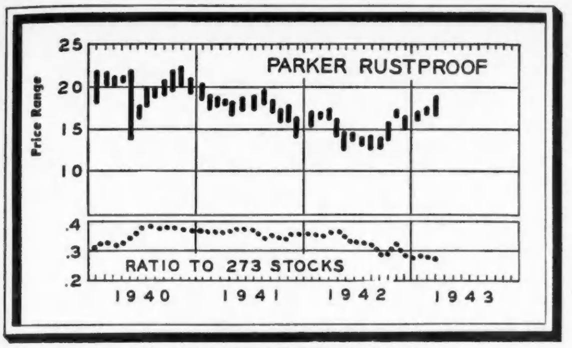
COMMENT: Recent price 26½. Further modernization of machinery, designed to reduce labor costs and undertaken late in 1942, should bolster 1943 earnings. The stock sells far below equity per share of $40.44.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net per Share	Dividends	Price Range
1934	23.674	2.333	4.19	7.00	59¾ - 27
1935	22.243	2.076	3.65	7.00	64¼ - 46½
1936	21.649	1.802	3.07	4.00	59½ - 49
1937	21.723	1.673	2.80	3.00	52¼ - 22
1938	20.154	1.207	1.81	2.00	28 - 20⅞
1939	18.966	0.879	1.12	1.75	25¼ - 16
1940	19.185	1.369	2.16	2.00	22 - 12¾
1941	22.013	1.667	2.79	2.25	22 - 16
1942	26.514	1.467	2.36	2.25	21½ - 16⅝

Thumbnail Stock Appraisal

Six Profit Situations With Good Dividend Yield



PARKER RUST-PROOF CO.

BUSINESS: This company owns numerous patents covering processes for the manufacture of rust-proofing materials which are sold, together with equipment for their application, to licensed users. The automobile industry is ordinarily the leading customer, accounting for two-thirds of total sales. Second most important peace-time client is the refrigeration industry, with the office equipment, hardware, household products and other industries also important users of the company's processes and chemicals which are well known under such trademarks as "Bonderite," "Parkerize," etc. Recently, non-automotive use has been increasing sharply owing to shortages of plating materials, and the company's products are now finding widespread application in war industries and establishments of the Army and Navy, f.i. for coating small arms. Last February, the Government instituted an anti-trust suit charging the company with monopolistic control of 95% of all chemical rust-proofing and priming materials sold in the U.S.A.

FINANCIAL POSITION: Resources are ample for the rather limited capital needs and in the past it has been unnecessary to obtain additional permanent capital to finance expansion of the company's operations. Because of the nature of the business, inventories are small. Current liabilities are nearly covered by quick assets, with working capital as of 9/30/42 amounting to $1.13 millions against $1.00 the year before. The company has no funded debt and only a small preferred stock issue is ahead of the outstanding 500,000 ($2.50 par) common shares. Past earnings were stable and dividends liberal.

OUTLOOK: The use of rust-proofing compounds is likely to be further extended in the automobile and automotive parts industries and additional uses will be developed in miscellaneous fields. This may be expected to offset any post-war loss of new markets now obtained owing to shortages of metallic plating materials. Sales will, however, largely depend on the activity of the automotive industry, considering the broad application of the company's processes in this particular field.

MARKET ACTION: Reflecting the company's dependence on the general business cycle, the stock in the past displayed about average volatility. However, during the current bull market, the common lagged considerably and today is only 30% above its 1942 low, compared with a gain of 80% of our Combined Index. Loss of much of its normal business—since compensated for by war work—and narrowing margins presumably accounted for this showing while latterly, the aforementioned anti-trust suit may have been a retarding factor.

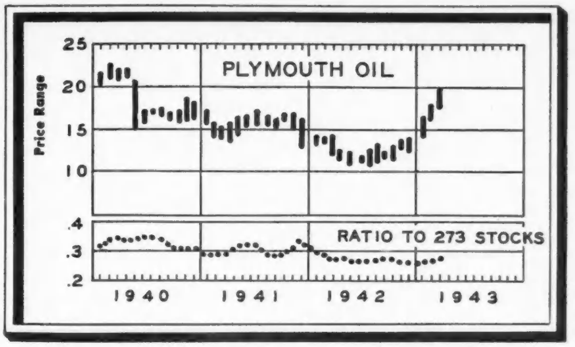
COMMENT: Recent price—17¼. In view of its entrenched position, even an adverse decision in the anti-trust proceedings should not seriously threaten the company's potentialities.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net per Share	Dividends	Price Range
1934	1.051	0.691	5.80	4.00	74 - 43¼*
1935	1.430	0.952	6.64	4.00	80 - 40*
1936	1.581	1.080	2.51	1.95	32½ - 23
1937	1.779	1.181	2.75	2.50	29⅝ - 12
1938	1.026	0.575	1.33	1.00	21½ - 13
1939	1.472	0.957	2.22	2.00	21 - 11⅞
1940	1.992	1.077	2.50	2.00	23⅜ - 13½
1941	2.015b	0.748	1.74	2.00	20⅜ - 14⅜
1942	2.233a	0.862	2.00	1.25	17½ - 13¼

*—Before split-up. a—Year ended 9/30/42. b—9 mos. ended 9/30/41.

Thumbnail Stock Appraisal



PLYMOUTH OIL COMPANY

BUSINESS: This company is primarily engaged in production and marketing of crude oil with principal producing fields located in West Texas and on the Texas Gulf Coast. The latter area is now the concern's leading production source and increased output from this and other developments resulted in an improved production trend despite steady declines from West Texas properties. Net output, 5.46 million barrels in 1939, declined to 3.96 million barrels in 1941 due to a drop in export demand, but in 1942 rose to 4.22 million barrels and is currently further gaining under the spur of war demands. 45 wells were drilled in 1941 whereof 30 were producers, and at the end of 1942 the company had 514 producing wells. Good operating margins are assured, as the company is generating its own electricity. Expected firming of the crude price structure may further improve operating results.

FINANCIAL POSITION: Large capital expenditures in connection with acquisitions of new properties and development work prevented the building up of a sizeable working capital and had to be financed partly through bank loans. The latter, however, are not burdensome and in 1942 were reduced from $3.22 millions to $2.44 millions. At the end of 1942, working capital was $899,000, cash $766,000 and current liabilities $968,000. Past earnings were fairly stable and dividends satisfactory. 1943 earnings should improve moderately in line with the rising production trend.

OUTLOOK: The potentialities inherent in active development of the company's properties are a favorable long-range consideration. Crude reserves are relatively large, hence the fields are believed to have outstanding possibilities. Over the longer term, earnings primarily depend on price trends and such factors as proration and taxes. In April, 1942, a contract was negotiated with the Defense Plant Corp. for the construction of a 100 octane aviation gasoline refinery in Texas City, costing $7.14 millions.

MARKET ACTION: The common has been following the general market trend fairly closely and latterly showed signs of strength reflecting the favorable interpretation placed on the oil industry's near-term and longer-term potentialities. Its advance since early 1942 almost exactly paralleled the rise of our Combined Index. On the strength of existing possibilities, the stock henceforth should move rather ahead of the market. The company's entry into the high octane gasoline field should bolster current and future prospects.

COMMENT: Recent price—20. The future secular trend of prices for petroleum products is widely believed to be upwards rather than downwards, as in the past.

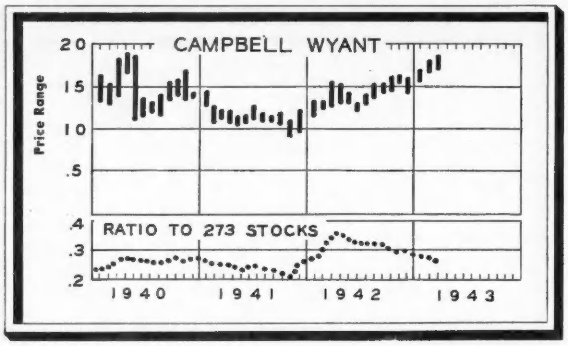
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net per Share	Dividends	Price Range
1934	3.612	0.670	0.64	0.75a	16¾ - 7¼
1935	3.581	0.736	0.70	0.25	13 - 6½
1936	5.203	1.739	1.66	0.90	37¾ - 11⅞
1937	7.370	2.935	2.85	1.65	29⅞ - 13
1938	7.136	2.609	2.59	1.40	25⅜ - 15
1939	6.804	2.475	2.38	1.40b	24 - 17⅛
1940	5.528	1.442	1.38	1.30c	22¾ - 15
1941	5.401	1.546	1.48	1.20c	17 - 13⅜
1942	5.872	1.774	1.69	0.90e	14⅝ - 11⅛

a—Also 4% stock dividend. b—Also 2 stock dividends of 2% each. c—Also 2% stock dividend in 1940 and 1941. e—Also 1½% stock dividend.

Thumbnail Stock Appraisal

Six Profit Situations With Good Dividend Yield



CAMPBELL, WYANT and CANNON FOUNDRY CO.

BUSINESS: This company is operating foundries for the manufacture of grey iron and ferrous alloy castings which normally are sold mainly to the automobile industry. Its products include cylinder blocks, cylinder heads, crank cases, pistons, etc., and more recently centrifugally cast cylinder liners, cam shafts and crank shafts made from processed ferrous alloys. A subsidiary, Centrifugal Fusing Co., manufactures iron linings and fuses them into brake drums sold by the Motor Wheel Corp. under the trade name of "Centrifuse." The company and subsidiary are now almost 100% engaged in war work. Last year a contract was negotiated for the production of steel castings in a Government-owned and equipped plant.

FINANCIAL POSITION: Past retention of a large proportion of earnings was reflected in steady improvement of working capital despite consistent maintenance of plant efficiency by equipment replacements and additions, and continued research and development without recourse to bank credit. Heavy war orders, however, now require additional capital and the company is applying for a Regulation V loan. Working capital last year declined to $1.97 millions from $2.67 millions in 1941, reflecting the mounting need for funds.

OUTLOOK: The company is assured of capacity operations for the duration, making castings for essential commercial engines, cylinder blocks and crank shafts for diesel engines in submarines as well as other war-important products. It also makes cast steel, mostly for British tanks, and a considerable volume of ordnance steel castings of an undisclosed nature. Taxes and renegotiation liabilities sharply restricted 1942 earnings gain as demonstrated by an increase of such liabilities to $7.48 millions from $0.99 millions in 1941. However, earnings over the nearer term should continue satisfactory and the $1.25 dividend seems assured. Over the longer term, the broad variations in automobile output will govern normal sales trends.

MARKET ACTION: The capital stock in the past displayed rather more than average volatility, reflecting the cyclical swings of the automotive industry and the leverage provided by a fairly heavy overhead. The recent upward movement carried the stock 12% higher above the 1942 low than our Combined Index.

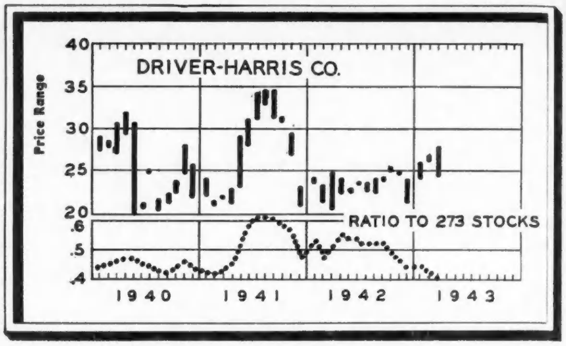
COMMENT: Recent price—17½. Normally, the company should have no serious reconversion problem. However, in the event of radical changes in post-war automobile engine design, considerable expenditures for plant adjustments may be necessary, affecting early post-war income.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net per Share	Dividends	Price Range
1934	N.A.	D0.017	D0.05	Nil	15⅞ - 6
1935	N.A.	0.654	1.90	0.65	33⅜ - 7½
1936	9.114	1.045	3.04	2.25	40¼ - 30
1937	12.393	0.906	2.62	1.25	37⅜ - 10
1938	4.795	D0.112	D0.32	0.25	20½ - 8⅝
1939	6.998	0.321	0.93	0.20	17¾ - 9⅛
1940	8.613	0.589	1.71	1.15	19½ - 11
1941	13.139	0.818	2.37	1.60	14⅞ - 9⅝
1942	9.790*	0.859	2.49	1.25	15⅛ - 9⅛

*—Gross profits from sales; in 1941 was $2.975.
N.A.—Not available.
D—Deficit.

Thumbnail Stock Appraisal



DRIVER-HARRIS COMPANY

BUSINESS: This concern is a prominent manufacturer of nickel, nickel-chromium and nickel-copper alloys, sold to many industries as rods, wire, coils, strips, sheets and castings of many forms and shapes. Due to their heat- and electricity-resisting properties, they are used in a great many appliances and apparatus, such as electric heating and cooking devices, radio tubes and sets, arc lamps, rheostats, motor starting boxes and also in automobiles, airplanes and locomotives. This company's chemical resistance alloys find wide application in the chemical industry.

FINANCIAL POSITION: The latest interim report, as of Sept. 30, 1942, discloses a considerable contraction of earnings due to narrowing margins and sharply higher taxes. The results for the entire year 1942 are likely to reflect this trend. Past earnings were fairly good and dividend policy conservative in view of the need to build up working capital. Since 1941, $2.40 annually was disbursed to common stockholders and this payment is likely to continue.

OUTLOOK: For the duration, the company will be occupied almost exclusively with war work as the scarcity of metals bars their use in non-essential goods, heretofore an important market. Sporadic shortages of highly critical nickel, chromium and copper may at times affect even war work, however, satisfactory results should be assured, on the whole, despite narrowing spreads and sharply higher taxes. The company should derive material benefit from the expected post-war revival of the consumer goods industries and reconversion of industry in general and should emerge from the war period strengthened financially and technically which will enhance its ability to take advantage of future opportunities.

MARKET ACTION: In the past, especially up to 1940, this stock was highly volatile, reflecting the leverage factor and business cycle which had an important bearing on the company's affairs. Less volatility was shown since 1941 when the business cycle factor was displaced first by restrictions on the use of metal, and later by heavy war orders. Currently, the stock is lagging behind the market; being only 32% above the 1942 low while our Index is 80% above that point. On the other hand, the stock is now 37% below the 1937 high while our Index is 40% below that peak.

COMMENT: Recent price—26¾. Post-war relaxation of price control should permit better margins and proportionately improved earnings possibilities together with less dependence on volume than presently.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net per Share	Dividends	Price Range
1934	3.229	0.138	0.74	0.50	23 - 9⅞
1935	3.956	0.245	1.95	0.25	38 - 13
1936	4.874	0.256	2.08	1.50	39 - 25
1937	5.162	0.390	3.60	1.87½	42½ - 14
1938	2.542	D0.045	D1.28	Nil	24 - 11½
1939	4,218	0.403	3.77	1.10	33¼ - 10
1940	4.833	0.404	3.80	2.40	32¼ - 20⅛
1941	8.411	0.674	7.07	2.40	34½ - 21
1942, 9 mos.	N.A.	0.318	3.57	2.40	25½ - 20¼
1941, 9 mos.	N.A.	0.534	5.56	....	....

N.A.—Not available.
D—Deficit.

Thumbnail Stock Appraisal

Soft Drinks *Versus* Liquor Stocks

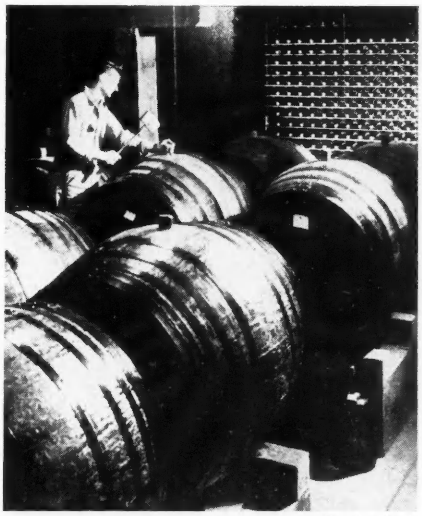
Both having risen sharply, which offer the most investment promise from here on?

BY H. F. TRAVIS

THE American people are far and away the largest consumers of soft drinks. Here and there they have spread this taste to other nations, especially in the Cola types. But apart from some lemonades or orangeades (and these are rare) or ginger ale, soft drinks in most other countries have been reserved mostly to children. The earnings record of Coca-Cola is one of the Arabian Nights stories of the Stock Exchange. Until 1940, it was thought that this increase of sales could not be arrested, except temporarily. In the last few years, however, the intense competition of Pepsi-Cola and the emerging shadow of Canada Dry, forecast the possibility that a plateau might have been reached in Coca-Cola sales and net operating income.

Yet, apart from the effect of war, (and then only after Pearl Harbor) the plateau theory has not yet found clear confirmation. Is it possible, then, that the tendency of consumption is still upwards, so that large competitive interests can all keep on gaining? Or will the soft drinks industry mature, so that the gains of one must be at the partial expense of another company? Apart from the drop in sales resulting from war, this question is at the basis of investment policy towards this group.

Coca-Cola's upward net sales trend has greatly surpassed the growth of population, of payrolls, or any other criterion. It was thought in 1933 that the restoration of beer would affect its earnings adversely. Statisticians once hazarded the idea that the increasing greater age of the average population would ultimately diminish the sales of sugar drinks and confections. The adults proved to have as sweet a tooth as children. What wonder then, that the market has considered Coca-Cola as a prime, secure placement, on which one should be glad to receive a small yield, and whose price-earnings ratio can be most conservative? For net sales rose from 38 millions in 1934 to 128 millions in 1941, or, in terms of population, went up *310% per capita* in seven years.



Harris & Ewing

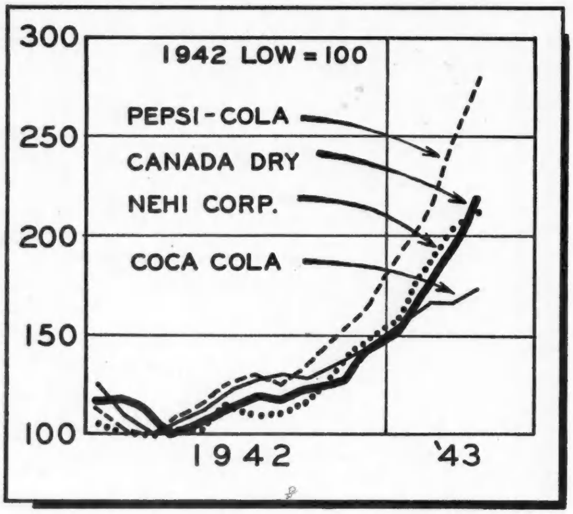
Aging liquor inventory is a profit determinant.

Net operating profit, in that time, kept pace from 17 to 57 millions, or almost seemed predetermined at 44% of net sales. Net income, after taxes, has, of course, been affected by the steadily mounting volume of taxation. From an average of about 37% of net sales, it declined gently to 33% in 1939, then to 30%, to 27%, and still more under the unusual conditions of 1942, but, nevertheless, remained very satisfactory. Still, the tendency of net income to net sales is steadily downwards, even under pre-war conditions. In cash terms in 1942 it was below any year since 1936. Still, though earnings per share declined from 1941 to 1942 from $6.78 to $5.37, the recent price has centered about 100, or nineteen times latest earnings, and sixteen times average earning power in the last few years. It is felt, in other words, that the $4 dividend is assured, and that there is certainty of increased post-war earnings (at least to the old levels) when costs will have been reduced, when raw materials will be available in former abundance, and when taxes will be lowered.

Pepsi-Cola, the foremost rival in cola drinks, has shown a similar history of growth, a similar ratio of net income to net sales, and has experienced an analagous drop in sales and net income due to war conditions in 1942. It has enjoyed greater market popularity, that is, as a trading stock, by reason of its lower price and by the dramatization of its court victory over Coca-Cola. (The word "Cola" is now free to all manufacturers.) The avid trader remembers its remarkable run-up from fractional quotations to 42. It is thought, also, to show more youthful enterprise.

It has been ingenious. Confronted by a sugar shortage, it manufactured cola syrup directly in Monterrey, Mexico, and so was enabled to bring in its product outside the sugar quota. Facing distribution costs increase, due to labor costs in trucking and also to a pinch in deliveries generally, it has

resorted to the fountain sale of its concentrate, instead of relying exclusively on bottle franchises. Its product is cheap, its supply large, and it has a tang that suits the young.



Nevertheless, the earnings per share, despite its enterprise and the apparent conservatism of Coca-Cola, declined from $4.93 in 1941 (it was actually much larger on a recurrent basis) to $3.31 in 1942, relatively a slightly larger decline. It has not established a minimum earning power per share, as redoubtable as Coca-Cola, which has never earned less than $4.66 (more than its dividend) in the last seven years. To compensate for this, its speed in taking care of such things as relying less on bottling when crown tops are less available, augurs well for future adaptability to post-war conditions.

It is impossible, at this moment, to weigh the effect of certain factors in the cola companies, but some appraisal of them may be attempted. In the first place, Pepsi-Cola, by winning the free use of the name "Cola," won a battle not only for itself but for every potential competitor as well, as the Nehi Company's prosperity indicates. The suggestion that Canada Dry intends to enter the Cola field is the next harbinger. The swollen surpluses of brewing companies may easily take this outlet for their special distribution which is already in being.

There is nothing mysterious in this concoction: the making of cola drinks is in the public domain. Hence the tendency towards a reduction of net income ratio to gross sales may be accentuated, as selling and advertising costs increase with the greater area of competition. If we have a long war, the sugar difficulties (only partly compensated by dextrose, itself a commodity that may have to be restricted), crown caps which find no easy substitute, and other ingredients may be needed for more essential purposes.

On the known factors of pre-war developments, both Coca-Cola and Pepsi-Cola are as fully valued as they should be in relation to the general market, although Pepsi-Cola on a speculative basis may still have considerable potential if bought on reaction.

Canada Dry, the third important soft-drinks producer, is a more varied company. It is a bridge between soft drink and liquor stocks in that some of its largest selling products have been employed with alcohol, especially with gin and rum drinks and the highballs among whiskies. It has had a selling agency for popular alcoholic brands. It has essayed the cola field in its "Spur" product, but war developments have prevented its major incursion into this field. Irrespective of which tendencies dominate after the war, it is in a fair position to profit by them. If, for example, gin becomes scarce, and the long Collins type of drink becomes rarer, it can stress other drinks in its selling program. Its falling off of net income is, accordingly, less noticeable, than with the cola companies.

Despite increasing costs and taxes, the 1941 earnings of $2.70 were reduced merely to $2.61. The price-earnings ratio is well below that of the two cola companies, although the recent rise in the stock to the 21 level, a new high on the move, may call for market caution, temporarily. Recent interim earnings, however, suggest that profits may even increase in 1943. The 60 cent dividend rate is, clearly, merely indicative. The fact that net sales have forged ahead, due to the fact that the company is not dependent on sugar drinks alone, has shown the value of a varied production in a period of possibly increasing restrictions.

The Liquor Companies

The four important liquor companies, National Distillers, Schenley, Seagram-Distillers and Hiram Walker, are today confined to two basic operations, the production of denatured alcohol for the war effort and the sale of accumulated stocks of whiskies, with a consequent rapid depletion of inventories. Other operations count for little compared to these two.

The profit on denatured alcohol production is probably three cents a gallon, but it is an open question whether the wear and tear of plants, their conversion costs, the present use of comparatively unskilled labor, etc., may not result in this showing as a paper profit. Taxation of their profits is based on the assumption that the negotiated contracts with the Government permit of a true income, which is taxable. If it should prove that the depreciation of equipment is much greater than has been allowed for tax purposes, the post-war aftermath of both excessive taxation and niggardly profits, may show little added to surplus. It seems most likely, however, that the liquor companies will find their situation eased in this respect.

Certainly one profitable result will remain. Alcohol production, as for rubber production, has become a permanent need for the national defense, and, apart from any considerations of profit, the necessity of having this equipment on call for war emergencies, must result in the Government looking cooly upon prohibition proposals. The industrial use of alcohol seems assured in more than pre-war volume.

To the companies, taxation is not quite the drastic thing in war time that it is in peace. For, if the companies must ration their sales to consumers, as appears most likely, then the reduction of sales by reason of taxation does not enter into their calculation. For the residual buyers will pay a premium, where the great mass of buyers would hesitate. Once sales are rationed from 175 million gallons down to 100 million, the marginal buyer, (the one who worries about price) is no longer decisive for the market. One has seen the same thing in groceries where the marginal buyer worries more about ration stamps than about a moderate fluctuation in price. Hence the bogey of taxation need not be taken too seriously.

Post-War Problems

The post-war difficulty would rather seem to be in the storage of properly aged whiskies after the war. At the prevailing rate of consumption, even as rationed, whiskey stocks will be exhausted in 1945, approximately. True, the Government has told the distillers they may replenish when the time comes, that is when their stocks are dangerously low. But here a great deal may depend on the state of public opinion. If the war production is still on at the present intensive rate, then the idea of deflecting cereal grains may find demogogic enemies, especially if food is still rationed.

The profits of the distilling companies, are, of course, largely due to the size of their inventories, since whiskey is an aging product like fine wine. Whiskey inventories were built up from 300 million gallons in 1936 to 500 million in 1941, although lately the increased consumption had almost caught up with production. If they are to be reduced to nominal figures, then the liquor companies will begin 1946 with nothing but raw production, and that means a low sales figure for several years. Past "earnings per share" are not a very significant item, therefore, for an industry in this curious position. In fact, if the inventory position takes this form, then even a temporary gain in local "dry" areas, may not be as dangerous as it seems, but help to conserve supply.

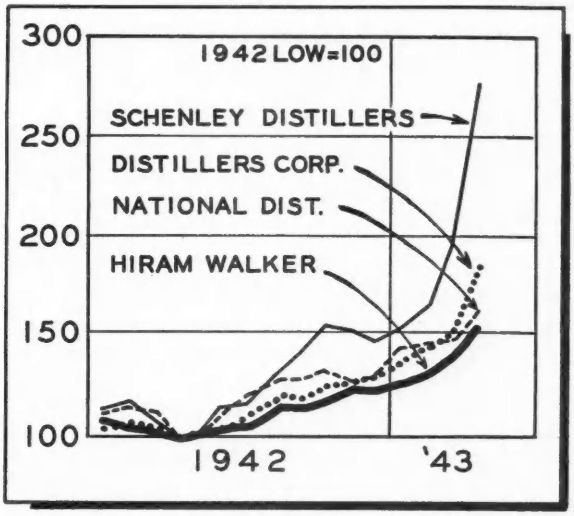
There are, however, important offsets to this factor, even assuming that it must take place. In the first place, the absence of expensive selling methods, due to the limited supply offered, must add appreciably to current profits. The reduction of male clients by ten millions into the armed forces (their consumption is, of course, only permitted on furlough) is not relevant when the remaining supply can be easily sold. But, of course, advertising can never be too much reduced as the popularity of brands is sustained by a long period of publicity, and one that never ceases. In whiskey brands it is necessary for companies not only to compete with each other, but also to have their own brands compete, for, by an irony of the trade situation, each consumer must be encouraged to favor one taste at the expense of the other.

A long term favorable factor is the gradual increase of distilled liquors as a proportion of the national consumption of beverages. At the opening of the century, the distilled products were 14% of all beverage sales, beer was 78% and soft drinks 8% (on a volume basis). By 1937, beer, had fallen to 49%, distilled liquors had advanced to nearly 30%, wines, scarcely a factor in 1899, were 5% and the remainder were the soft drinks whose remarkable rise has been given previously in this article. Not only has this tendency continued, but it is worldwide and is accompanied by a worldwide tendency to more temperance.

So far, the wine market has been largely based on the immigrant population, that is, of Italian, Spanish, French and Greek, since the wealthier native population bought French wines, primarily, until 1940. The increasing excellent wines obtained in California, the long exclusion of certain imports and a more general diffusion of the taste for wines, will provide additional revenue to the liquor companies, who have acquired considerable interests in this field. The liquor companies, unlike their policy before 1918, show a true awareness of the need for diversification, both in industrial chemistry and in a greater variety of production. There is every reason now to consider them principally as investments.

Comparative investment attractions of the four major liquor companies, for the war period, must take account, primarily, of their inventory position, which is the one source of continuing net revenue that allows for differentials, since alcohol profits are on the same basis. The blender is at a disadvantage compared to the stocker of straight whiskies, since the supply of a grain alcohol, required for these blends, is near the vanishing point.

Schenley Distillers have about a fifth of the straight whiskey inventory of the country, whereas National Distillers, its principal domestic competitor, appears to have about 13% of the national supply. Schenley's net quick assets per share almost equal the price of the stock. Its inventory position must still be (*Please turn to page* 112)



Another Look At...

SOCONY-VACUUM — WARNER BROS. — UNITED DRUG

By The Magazine of Wall Street Staff

Socony-Vacuum

Since discussed early this year, this stock gained further ground, reaching a high for the year of 13½ and currently selling around 12¾ compared with about 10 at the beginning of the year. 1942 earnings, announced only recently, turned out rather better than expected with net per share of $0.99, against $1.38 in 1941. Despite the various and weighty factors militating against further expansion of sales, gross operating income rose some 4% to $556.25 millions. Sharply higher costs, rising to $319.14 millions from $217.94 millions the year before, brought about a decline of net operating income to $109.5 millions from $124.11 millions, with a resultant decrease in taxes to $13.23 millions from $20.51 in 1941. Remaining net income amounted to $30.81 millions compared with $43.17 millions the year before. Out of earnings, $9.35 millions were charged off as provision for amortization payable on recovery of foreign investments. Additionally, the balance sheet reveals a reserve of $13.54 millions for replacement of vessels lost due to war causes, and a further reserve of $19.85 millions for future Federal income taxes on recovery of foreign investments. In spite of these extraordinary items, working capital registered a further gain, standing at $234.07 millions at the end of the year against $216.88 millions the year before. Equity per common is around $21.77 per share.

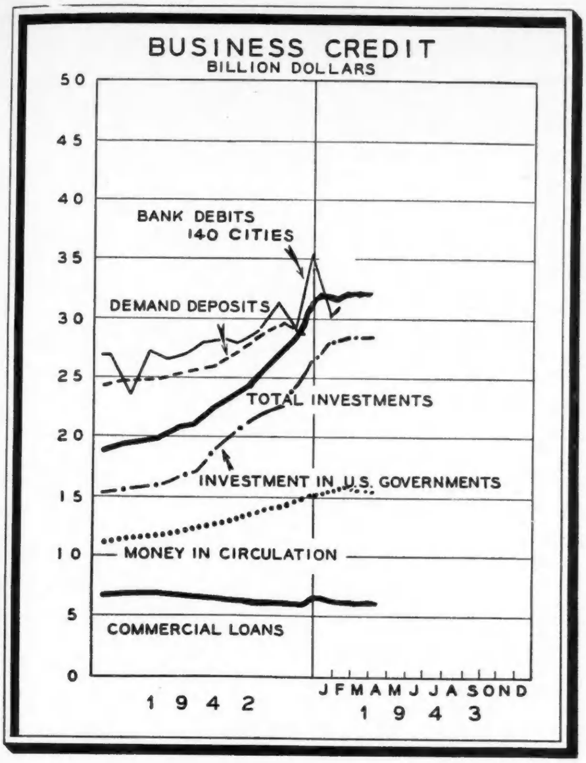
Though having doubled its price since the 1942 low of 6⅛, the stock holds promise of further appreciation, considering the solid quality of the company and the outlook for the oil industry as a whole. While gasoline sales will continue to be adversely affected by rationing, war demand for many petroleum products can be expected to balance increasingly the decline of civilian markets. The company is a leading factor in the production of aviation gasoline, demand for which is mounting rapidly. Only recently, Socony announced a new catalyst making possible marked improvement in quality and output of aviation gasoline. By using this catalyst, engine power output can be stepped up from 23-35% and yields of aviation gasoline base stock from crudes can be increased from 13-30%. Considering all factors involved, the stock appears still undervalued and a sizeable reaction from current levels is hardly likely; on the contrary, we rather expect a further good percentage profit before the end of the year.

Warner Bros.

The company's favorable earnings outlook was reflected in a further substantial percentage rise of the stock since early this year but even at the current advanced level of 12⅜ (against the year's low of 7⅜) the common continues to have appeal as a low-priced speculation. While talk of a plan for clearing up arrears on the preferred, thereby paving the way for future disbursements on the common, has not as yet materialized in the form of concrete action, the appreciation potential of the stock is enhanced by good prospects of further rehabilitation of earning power despite probably increasing operating difficulties due to war causes. Theater attendance is still rising and higher costs are being offset by higher admission prices. Film shortages should be no immediate problem. Curtailment of new production may eventually become a factor but for the time being the company has a large backlog of completed films. This, together with longer runs, will permit lower production and amortization charges, should result in well maintained earnings and allow continued, if not faster, debt reduction. As a fully integrated producer, Warner Bros. enjoys a relatively large EPT exemption which should be helpful in attaining the latter goal. Regardless of dividend possibilities which presently do not bulk large as a market factor, we feel that the stock should be held for further appreciation.

United Drug

Despite a somewhat lower net reported for 1942, this stock continued to improve its position, advancing to a high of 11¾ from the year's low of 7⅝. The 1942 low was 4½. Net profit last year amounted to $2.30 millions (*Please turn to page* 109)



CONCLUSIONS

MONEY AND CREDIT—Federal spending this year will approximate $100 billion, of which less than $40 billion will be inflationary.

TRADE—Net profit after taxes of first 100 retail concerns to report for 1942 averaged 8.6% below 1941; but restaurant and candy chains gained 2.9%.

INDUSTRY — Two-thirds of March production for war purposes. Civilian goods output 25% below pre-war. Consumption sustained by heavy draft on inventories.

COMMODITIES — Livestock population increases while farmers hold for higher prices. Army cuts food wastage drastically. Commodity average at new high.

The Business Analyst

Per capita **business activity** has risen nearly two points during the past fornight, to a new all-time high, with all components of our business index, save steel operations, reporting better than normal seasonal gains. War is making continually increasing demands upon domestic **production.** During March it took two-thirds of total output. Production of civilian goods is running about 25% below pre-war levels; but there has been only a small decline in consumption, owing to heavy inroads upon **inventories.**

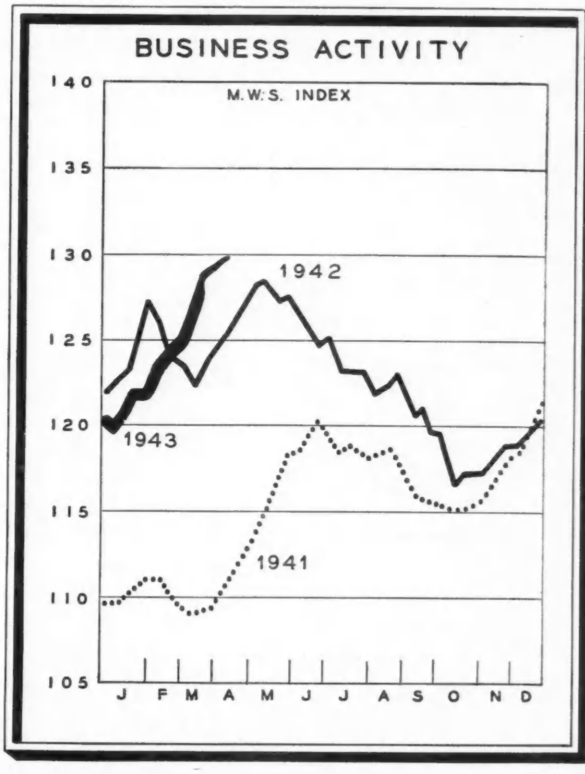
* * *

The National Industrial Conference Board estimates **employment** in February, including our armed forces, at 58.5 million — nearly 8 million more than a year earlier. The report states that 5 million found employment in the military services during the twelve-month interval; but finds a drop of 100,000 in **farm employment** below February, 1942; whereas the Census Bureau says there were increases over last year of 400,000 in February and 100,000 in March.

* * *

The Treasury estimates that **U. S. spending** this year will total $100 billion, to be financed by $30 billion of revenue receipts and $70 billion of borrowing. It is hoped that less than $40

(Please turn to following page)



Inflation Factors

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
FEDERAL WAR SPENDING† (Fiscal Yr. to Date)	Apr. 19	$54,506	$53,100	$17,394
FEDERAL DEBT† (Gross)	Apr. 19	$123,232	$116,020	$64,557
MONEY SUPPLY				
Member Bank Dem. Deposits†	Apr. 14	$33,009	$32,955	$24,725
Currency in Circulation†	Apr. 14	$16,424	$16,353	$11,624
NATIONAL INCOME				
Total Income Payments†	Feb.	$10,428	$10,725	$8,094
Salaries and Wages†	Feb.	7,756	7,602	5,806
Dividends and Interest†	Feb.	437	788	426
Total Non-Farm Income†	Feb.	9,422	9,614	7,394
Farm Marketing Income† (ee)	Feb.	1,131	1,261	833
Including Govt. Payments† (ee)	Feb.	1,210	1,361	912
FACTORY PAY PAYROLLS (dl)	Jan.	291.2	287.9	200.7
FACTORY EMPLOYMENT (dl)	Feb.	166.6	165.0	142.3
Durable Goods	Feb.	222.0	218.1	172.3
Non-Durable Goods	Feb.	123.0	123.1	118.6
BANK DEBITS				
Member Banks (101) Cities†	Mar. 14	$13,224	$11,553	$9,212
New York City†	Mar. 14	$5,530	$5,435	$3,670
Cost of Living (c)				
All Items	Mar.	102.8	101.8	96.1
Food	Mar.	112.9	110.2	97.5
Housing	Mar.	90.8	90.8	90.7
Clothing	Mar.	88.6	88.6	85.8
Fuel and Light	Mar.	92.6	92.2	90.4
Sundries	Mar.	106.8	106.7	103.5
Purchasing Value of Dollar	Mar.	97.3	98.3	104.1
RETAIL TRADE				
Primary Distribution (b)	Mar.	147	147	128
Distribution to Consumers (b)	Mar.	85	97	93
Consumer Expenditures				
Total†	Dec.	8,326	7,187	7,487
Goods†	Dec.	5,966	4,830	5,274
Services†	Dec.	2,360	2,357	2,213
Retail Store Sales†	Feb.	$4,525	$4,468	$3,843
Durable Goods†	Feb.	$664	$654	$690
Non-Durable Goods†	Feb.	$3,861	$3,814	$3,140
Department Store Sales	Mar.	135	167	124
Chain Store Sales (g)	Feb.	194	177	165
Rural Sales, Gen. Merchandise (m)	Jan.	200.0	170.5	199.0
Commercial Failures (c)	Mar.	401	422	1,048
PRICES				
Wholesale (h)	Apr. 10	103.5	103.4	98.1
Retail (s) End of Mo.	Mar.	113.2	113.1	112.5
DEPT. STORE STOCKS (f)	Feb.	94	105	102
MANUFACTURERS ORDERS SHIPMENTS & INVENTORIES (e)				
New Orders—Total	Feb.	280	247	292
Durable Goods	Feb.	420	364	463
Non-Durable Goods	Feb.	191	172	182
Shipments—Total	Feb.	256	226	199
Durable Goods	Feb.	337	298	232
Non-Durable Goods	Feb.	193	169	173
Inventories—Total	Feb.	175.7	177.8	163.0
Durable Goods	Feb.	210.3	211.3	180.8
Non-Durable Goods	Feb.	145.5	148.6	147.4

PRESENT POSITION AND OUTLOOK

(Continued from page 000)

billion of the latter will have to be obtained from commercial banks. War financing should be aided by the recent suspension of reserve requirements and F. D. I. C. assessments on bank deposits resulting from subscriptions for war bonds. It will also be helpful if the House concurs in legislation just approved by the Senate permitting the **dollar devaluation** power of President Roosevelt to expire on June 30.

* * *

Encouraged by heavy bond sales and tax receipts, the Treasury has lost interest, for the present at least, in the subject of **forced savings.** The head of the **Army's Real Estate** division, John J. O'Brien, says there will be no post-war dumping of the War Department's vast holdings of real estate, but a carefully thought-out plan of sales designed to avoid any disruption of market prices.

* * *

The Committee on Intergovernmental Fiscal Relations reports that out of $17 billion in **taxes** collected in the 1941 fiscal year, $7.8 billion were Federal, $4.6 billion State and $4.6 billion local. Overlapping Federal, State and local taxes accounted for all but $6.5 billion of the total.

* * *

Net **profits of member banks** in the New York Federal Reserve district last year averaged 4.4% of total capital accounts, a decline of 1.1% from 1941.

* * *

In the fight against **inflation** President Roosevelt's "hold-the-line" order came none too soon. Wages and prices had advanced as much during the first year we were in the war as in the preceding 27 months (Aug., 1939, to Nov., 1941). Pressure group reactions to the order, after the first shock, have been "How can we get around it?" Lewis is willing to forego higher hourly wages if the miners are guaranteed a larger annual income. Other labor leaders are waiting to see how Lewis makes out. If he wins, they will say "me too."

Unsuccessful in eliminating benefit payments from the parity formula, the farm bloc now asks cessation of all Government subsidies, and, in lieu of these, Government action to encourage an advance to parity in all farm prices. Business appeals for higher ceiling prices are still being made.

Manpower Chief McNutt announces that essential workers will still be permitted to take higher paying jobs with new employers anywhere in the country, provided the W. M.. C. finds that the transfer will help the war effort. OPA Chief Brown says he's not sure he has the authority to enforce grade labeling. The President's hold-the-line order thus promises to eventuate in little more than just another delaying action.

* * *

Effective May 15, the I. C. C. has suspended until next Jan. 1 the **railroad freight date** in-

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Apr. 10	129.1	128.7	125.8
INDUSTRIAL PRODUCTION (a)	Mar.	203	202	172
Durable Goods	Mar.	298	295	230
Non-Durable Goods	Mar.	148	150	139
STEEL				
Ingot Production in tons ★	Mar.	7,670	6,826	7,392
Year's Total Production to ★	Mar.	21,920	....	21,017
ELECTRIC POWER OUTPUT				
K.W.H.†	Apr. 17	3,917	3,882	3,308
ENGINEERING CONSTRUCTION				
Volume ★ (en)	Apr. 15	$93,573	$93,841	$148,577
PETROLEUM				
Average Daily Production bbls. ★	Apr. 17	3,907	3,949	3,545
Crude Runs to Stills Avge. bbls. ★	Apr. 17	3,672	3,677	3,537
Total Gasoline Stocks bbls. ★	Apr. 17	92,121	93,212	104,226
Fuel Oil Stocks bbls. ★	Apr. 17	67,007	67,185	81,921
TRANSPORTATION				
Carloadings, total	Apr. 10	789,018	772,133	814,096
Grain	Apr. 10	41,959	43,326	33,861
Coal	Apr. 10	173,831	157,457	160,611
Forest Products	Apr. 10	42,659	41,895	46,868
Manufacturing and Miscellaneous	Apr. 10	381,416	383,080	364,510
L. C. L. Mdse.	Apr. 10	99,519	100,966	132,367
Ore	Apr. 10	21,196	17,135	51,007
Coke	Apr. 10	14,673	14,415	13,755
Livestock	Apr. 10	13,765	13,859	11,117
GENERAL				
Paperboard, new orders (st)	Feb.	508,539	511,724	508,272
Lumber Production† (bd. ft.)	Feb.	1,976	1,900	2,338
Cigarette Production†	Mar.	20,611	17,678	17,015
Bituminus Coal Production★ (tons)	Mar.	56,450	47,209	47,796
Portland Cement Shipments★ (bbls.)	Feb.	8,656	8,691	8,293

PRESENT POSITION AND OUTLOOK

creases which went into effect during February and March of last year. The resulting loss in net income after taxes during the remaining 7½ months of 1943 should not exceed $90 million. Last year's aggregate net was $960 million. Heavier traffic this year, probably 10% above last year, will more than absorb the $90 million roll-back.

* * *

Statistics of **commercial failures**, which are based mostly upon bankruptcies, fail to give an adequate picture of the heavy and rising mortality of recent months among smaller business concerns. Shortages, rationing, the draft, inadequate help, bureaucratic red tape, ceilings on prices but not on costs, are causing numerous neighborhood stores to despair of earning a living for their families. So they pay their bills and close up without getting into the courts and the census of commercial failures. They do not "fail," but just quit, yielding the field to lower cost **chain stores.**

* * *

W. P. B. Chairman Nelson says that plans to **confine production** of civilian goods to a relatively small number of plants have been abandoned, for the present at least; because the procedure would have disrupting effects.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100% estimated long term trend. (c)—Nat. Ind. Conf. Bd. 1923—100. (d)—U. S. D. L. 1939—100. (e)—Dept. of Com. Jan. 1939—100. (ee)—Dept. of Agric. (en)—Engineering News-Record. (f) Federal Reserve Index, adj. 1923-25—100. (g)—Chain Store Age. (h)—U. S. B. L. S. 1926—100. (l)—1939—100. (m)—1929-31—100. (s)—Fairchild Index, Dec. 1930—100. (st) Short tons.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

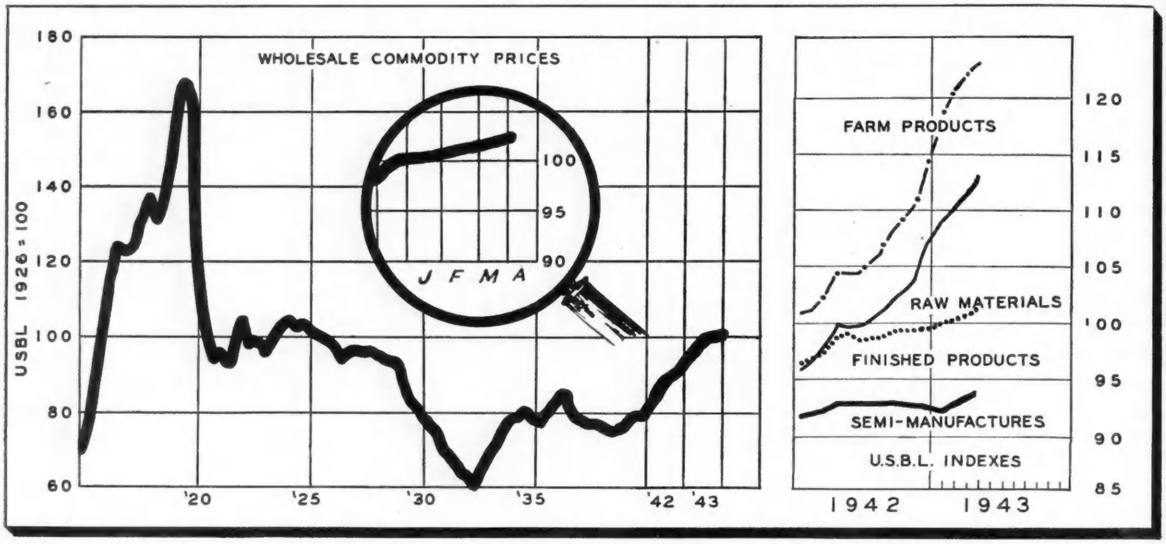
No. of Issues (1925 Close—100)	1943 Indexes High	Low	Apr. 17	Apr. 24
273 COMBINED AVERAGE	80.4	54.5	78.5	80.4F
3 Agricultural Implements	134.3	105.2	132.0	133.3
9 Aircraft (1927 Cl.—100)	177.7	131.8	172.8	173.0
5 Air Lines (1934 Cl.—100)	437.3	363.1	425.2	430.9
5 Amusement	65.3	40.2	64.4	65.3F
12 Automobile Accessories	122.2	83.0	121.5	121.0
13 Automobiles	17.8	9.7	17.8F	17.8
3 Baking (1926 Cl.—100)	12.2	8.5	12.1	12.2
3 Business Machines	162.1	129.4	156.4	159.9
2 Bus Lines (1926 Cl.—100)	81.0	54.9	80.1	81.0
5 Chemicals	180.9	153.5	178.6	180.9D
13 Construction	32.4	23.3	30.7	32.4C
5 Containers	214.0	177.1	205.0	210.2
8 Copper & Brass	82.2	63.6	81.6	82.2B
2 Dairy Products	35.8	29.7	34.7	35.8F
6 Department Stores	23.4	15.4	22.5	23.3
5 Drugs & Toilet Articles	81.4	50.9	76.4	81.4F
2 Finance Companies	198.5	152.6	189.4	193.5
6 Food Brands	114.3	85.5	109.5	114.3C
2 Food Stores	42.3	37.7	41.8	42.3A
4 Furniture	50.9	35.0	50.8	50.9
3 Gold Mining	912.6	610.3	845.4	852.1
6 Investment Trusts	35.9	22.7	35.7	35.7

(Nov. 14, 1936, Cl.—100)	High	Low	Apr. 17	Apr. 24
100 HIGH PRICED STOCKS	62.69	52.87	61.89	62.35
100 LOW PRICED STOCKS	77.54	43.61	74.62	77.54F
3 Liquor (1932 Cl.—100)	289.2	179.1	289.2F	284.2
8 Machinery	103.9	82.6	102.1	103.3
2 Mail Order	72.7	61.8	72.1	72.0
3 Meat Packing	52.7	34.9	51.4	52.7B
10 Metals, non-Ferrous	148.7	106.8	144.7	144.5
3 Paper	12.5	9.0	11.6	12.0
21 Petroleum	125.4	86.9	121.3	125.4F
18 Public Utilities	47.2	23.2	43.6	47.2C
3 Radio (1927 Cl.—100)	22.5	12.1	21.9	22.5F
7 Railroad Equipment	48.7	32.1	47.6	48.1
17 Railroads	17.5	9.8	16.7	17.5D
2 Shipbuilding	104.2	83.4	100.7	101.5
3 Soft Drinks	264.1	197.8	260.3	264.1C
12 Steel & Iron	73.8	57.6	71.3	71.8
2 Sugar	39.3	32.2	37.9	39.3A
2 Sulphur	188.8	180.2	185.6	186.2
3 Telephone & Telegraph	95.6	67.0	90.2	95.6G
3 Textiles	51.3	33.7	47.6	51.3C
3 Tires & Rubber	25.2	16.5	23.4	25.2F
4 Tobacco	60.6	52.2	60.2	60.4
2 Variety Stores	219.6	182.4	213.6	215.5
20 Unclassified (1942 Cl.—100)	157.3	100.0	156.3	156.2

New HIGHS since: A—1942; B—1941; C—1940; D—1939; F—1937; G—1936.

Trend of Commodities

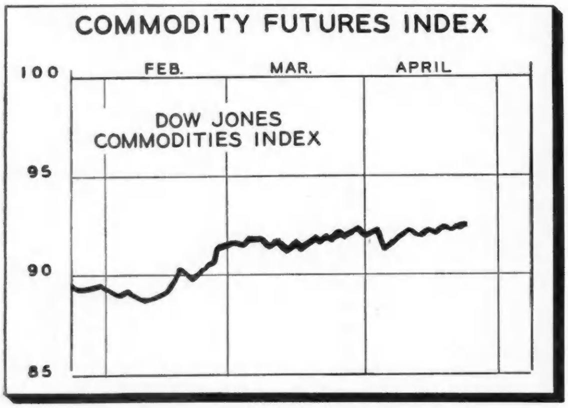
Pork supplies are running about 43% below last year, for a number of reasons. Ceilings at wholesale and retail, but not on livestock make it more profitable for farmers to sell to black marketeers than to packers. To correct the disparity between corn and hog prices, the O. P. A. has just lifted the ceiling on the former by 5c a bushel. Prior to this, farmers found it more profitable to use corn as hog feed than to sell it and, as hog prices continued to advance, hogs were permitted to go on fattening and fewer were marketed. The number of hogs on farms increased from 60.4 million at the beginning of 1942 to 73.7 million at the year-end. Even the cattle population has been increasing a little. The Army has been stocking and wasting food; but has taken steps to correct the condition. Food wastage at mess halls has been reduced to 5%, from the former 21%. The War Department estimates that military and lend-lease requirements this year will take about 13% of our total meat supply, leaving 136.5 lbs. per capita for civilians, or 1.7 lbs. more than the 1935-39 average. Crop prices advanced moderately to new war-time highs last week, despite President's "hold-the-line" order. Traders continue to regulate daily transactions to conform to price control developments.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

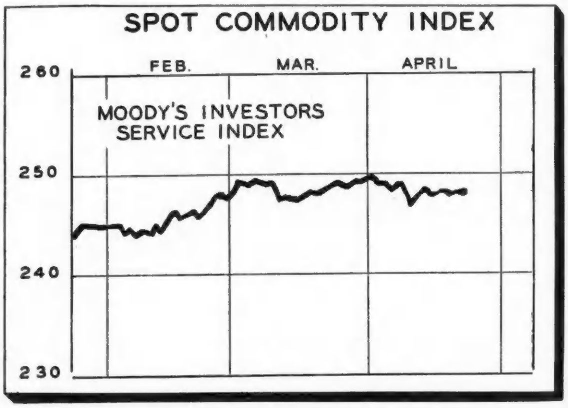
Spot Market Prices—August, 1929, equal 100

	Date Apr. 21	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	2 Yr. Ago
28 Basic Commodities	176.4	176.8	176.2	173.8	169.9	167.1	137.5
Import Commodities	167.4	167.7	165.2	164.2	163.0	162.4	145.6
Domestic Commodities	182.4	182.9	182.2	180.3	174.6	170.2	132.5
Domestic Agriculture	208.8	209.6	206.9	199.9	185.9	185.3	134.6
Foodstuffs	201.3	201.8	200.9	198.4	190.6	186.1	140.7
Raw Industrials	159.6	159.9	159.5	157.1	155.8	154.0	135.0



Average 1924-26 equal 100

	1943	1942	1941	1940	1939	1938	1937
High	92.16	88.88	84.60	64.07	64.67	54.95	82.44
Low	88.45	83.61	55.45	48.74	46.59	45.03	52.03



15 Commodities, December 31, 1931, equal 100

Copyright by Moody's Investor Service

	1943	1942	1941	1940	1939	1938	1937
High	249.8	239.9	219.9	171.8	172.3	152.9	228.1
Low	240.2	220.0	171.6	149.3	138.4	130.1	144.6

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Atlas Plywood vs. U. S. Plywood

I would appreciate any information you may have about the Atlas Plywood Corporation common stock listed on the New York Curb. What are the prospects for this company? Has it diversified its products to any large extent? Has it benefited from the airplane production? Do you consider the common shares attractive at around 17 or would United States Plywood have better prospects?—A. J. R., Larchmont, New York.

Atlas Plywood Corporation for the fiscal year ending June 30, 1942, showed $4.16 on its common stock as compared with $3.62 in 1941. It has paid dividends at various rates in each of the last seven years. It paid $1.80 per share in 1942 and in the first quarter of 1943, reduced the quarterly rate to 30¢ per share or at the annual rate of $1.20. Based on a $1.20 yearly dividend and selling at 17, the indicated income yield is 7 per cent. It is selling for about four times its 1942 earnings and on an income basis and a price to earnings ratio the common stock looks reasonably priced at $17.00 per share.

The company has no funded debt, its sole capitalization consisting of 62,217 shares of $1.25 preferred stock and 141,562 shares of common stock.

The latest available balance sheet dated June 30, 1942, showed total current assets of $2,311,913 as compared with total current liabilities of $1,014,664, a ratio of about 2 to 1. Notes payable were reduced from $400,000 to $200,000 and cash increased from $249,071 to $579,085. The book value is about $17.00 per share or the same as the present market price.

Indications are that unfilled orders are sufficient to keep plants running for many months at the present rate of operation. The company's prospects appear good for increased business, since the demand for shipping containers will reflect the rapidly increasing production of war materials. The loss of business from regular customers as a result of priorities should be more than offset by Government business, which now is understood to represent the bulk of output.

United States Plywood is selling around 39 and earnings are estimated at around $3.00 a common share. Present dividend rate is $1.20. You can buy more than two shares of Atlas Plywood Corporation for the price of one share of United States Plywood and based on present dividend rates, receive a much better income. At current market prices, we would give preference to the Atlas Plywood Corporation.

Consolidated-Vultee Merger

I own 40 shares of Consolidated Aircraft. As this Company and Vultee Aircraft are merging, I would like to know if I should hold these shares. As they have paid no dividend so far this year and as they have not been listed on any of the market reports, at what price would they be sold after they merge? Will all certificates of Consolidated be called in and new certificates issued? What is the future for appreciation and dividends?—N. M. B., Hamden, Connecticut.

Your present holdings of 40 shares of Consolidated Aircraft will receive 40 shares of the new stock of Consolidated Vultee, the merger having been approved by stockholders. Subject to special charges, earnings for the current fiscal year ending November 30, 1943, should approximate the total earnings of the two component companies of 1941-1942. According to pro forma income account, the earnings were equal to $10.57 on the new common stock of Consolidated Vultee Aircraft. In view of the good earnings, the company declared a 50¢ dividend for the first quarter of 1943.

The merger has broadened the line of the new company's products and the demand for all types of aircraft should continue at a high level for the duration. The company's earnings, although possibly restricted as a result of contract renegotiation, should be satisfactory. In our opinion, the common stock has speculative appeal around the current market price of $18.00 per share.

The shares of the new company are listed on the New York Stock Exchange and new certificates issued for the old certificates of the two companies.

Interchemical Corp.

I am attracted to the above stock and would appreciate a comprehensive report or analysis on this concern. In your opinion does it appear that the $1.60

dividend would continue should the war last several more years? At a price of 30½ do you feel that it would be more vulnerable to downtrend than average stocks?—T. C., Evansville, Indiana.

Interchemical Corporation was incorporated in Ohio on May 28, 1928, as the International Printing Ink Company, the present title being adopted April 30, 1937. The company ranks as one of the leading producers of all types of printing inks.

Earnings took a sharp drop in 1942, amounting to $2.47 per share on the common stock as compared with $6.01 in 1941 but before extraordinary charges. Dividends paid in 1942 amounted to $1.50 per share as against $2.00 in 1941. At current market price of 30¾ and based on a $1.60 dividend rate, the income yield is slightly over 5 per cent.

The consolidated balance sheet as of December 31, 1942 showed company was able to maintain its good cash and working capital position. Total current assets amounted to $10,764,223 with cash in the amount of $2,483,825 as compared with total current liabilities of $1,928,512, a ratio of better than 5 to 1. During the year company reduced its 3½ per cent debentures due 1949 by the sum of $200,000 or to $1,650,000.

The company's sales of printing ink will compare unfavorably with year earlier levels in the first quarter.

We would call your attention to the fact that the stock has advanced rapidly the past year despite lower earnings. The low registered in 1942 was 18½ and the low in 1941 was 10 as compared with current market price of 30¾. While the common stock offers interesting possibilities on the basis of post-war growth prospects, the present price cannot be said to be deflated on an income yield basis or price to earnings ratio. We do not consider the stock more vulnerable to downtrend than the average stock but as you undoubtedly know, when a break comes the good stocks usually react with the poorer grade stocks but respond more quickly to appreciation when the market stages a come-back.

Briggs Manufacturing vs. U. S. Industrial Alcohol

I have been thinking of buying the common stock of the Briggs Manufacturing Company and the United States Industrial Alcohol Company. I wish to know which company is best for income and capital appreciation. It looks to me that stocks of both companies sell at a very low price in ratio to their earnings and is it right time to buy or wait as the market seems to be falling backward?—R. H., Cincinnati, Ohio.

Briggs Manufacturing Company earned $2.15 per share of common in 1942. This stock has had a price range this year of: high 27¾; low 20⅝; last 26. Based on the $2.00 dividend paid in 1942, the indicated income yield is 8.22 per cent. Earnings in 1943 should show some improvement over the estimated earnings for 1942. With the new plant for production of bomber turrets in operation and additional machinery being installed, a steady rise in output of these products is expected in the coming months. If the company is granted adequate raw materials, capacity operations may be witnessed within the next few months. If so, dollar volume would be nearly double the company's best peace-time level. Economy from mass production should permit reasonably good margins, even though Government contract prices are being reduced.

As regards United States Industrial Alcohol Company, for the fiscal year ending March 31, 1942, this company earned $5.30 on its common stock. Earnings for the fiscal year ending March 31, 1943, are estimated to be around $3.25 per share, after providing for a contingency reserve of $750,000. This stock has had a price range of: high 39½; low 30; last 37. Based on a yearly dividend of $1.50, the indicated income yield is 4.05 per cent.

At current market prices of the two stocks, you can buy nearly one and one half shares of Briggs Manufacturing Company for the price of one share of United States Industrial Alcohol common stock. If current dividends are continued at the same rate, on one and one half shares of Briggs you would receive $3.00 yearly as compared with only $1.50 on United States Industrial Alcohol. In our opinion, Briggs is the better buy.

Radio Corp.

Have noticed that there is some talk that the "B" stock of Radio Corporation of America may be redeemed and would like to ask what effect this will have on the future of the common. Am interested in dividends as well as enhancement of common. In the face of television being an accepted fact after the war is over, would you advise the purchase of the common? In addition to this, what other stock is there that faces the activities of the incoming of television that has a bright outlook?—M. M. K., Steubenville, Ohio.

The redemption of Radio Corporation $5.00 cumulative "B" preferred stock outstanding in the amount of 11,891 shares at $100.00 per share plus accrued dividends of $1.25 on July 1, 1943, will leave only the $3.50 preferred stock and common stock outstanding. The conversion feature of the $3.50 preferred stock expired July 1, 1941. The "B" preferred stock has a total par value of only $1,189,100 and the yearly dividend requirements on same amounted to only $59,455, therefore, the effect on income is infinitesimal.

In our opinion, the company's common stock has a fair future in the post-war period. It earned 42¢ in 1942 as compared with 50¢ in 1941. Dividends in the amount of 20¢ per share have been paid on the common stock in each of the last two years. The common stock has moved up from a low of 4⅞ to a high of 10¾, last around 10. On an income basis, this yields only 2 per cent and it is selling about 24 times its per share earnings for 1942. While it appears amply priced based on these figures, it is obvious that investors are looking to the potential earning power of this company after the war.

Farnsworth Television listed on the New York Curb Exchange is expected to participate greatly in the development of television after the cessation of hostilities. General Electric and other leading radio companies will undoubtedly enter this field in which everyone is interested.

A REPORT TO YOU

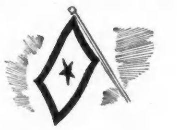
and more than 2,500,000 customers of Consolidated Edison System

HIGHLIGHTS OF OUR ANNUAL REPORT TO STOCKHOLDERS

DURING THE YEAR the Consolidated Edison System Companies furnished essential electric, gas and steam service to a population of more than 7,000,000.

★

MORE ELECTRICITY FOR LESS MONEY. Wartime demands have brought new uses of electric service to offset in kilowatt-hours, but not entirely in dollars, curtailments in other directions. The result for the year 1942 was the sale of more electricity by the System Companies than ever before, and for less money.



FEWER MEN AT WORK. Today 3,064 of the employees of Consolidated Edison have gone to war. And our service flag has nine gold stars. By the end of 1942, one out of every six active employees on the payroll at the end of the preceding year had left—most of them to enter the country's armed services or war industries.

★

THE DIM-OUT. New York turned off its lights in 1942 for dim-outs, practice blackouts, wartime restrictions. The estimated loss in sales for the year from these causes was 178 million kilowatt-hours, or a revenue loss to us of $6,900,000.

EXPENSES UP—Coal and oil prices were higher in 1942 than in 1941, as were prices of other essential materials. For example, coal we burned for making electricity averaged $5.45 against $5.21 a ton. Oil for water gas averaged 3.84 cents a gallon against 2.92 cents. Our total fuel bill was $35,200,000 in 1942; $32,000,000 in 1941.

HOW OUR MONEY WAS SPENT IN 1942

Wages and salaries paid . . . . . . (Including pensions to retired employees)	$75,225,000
Materials, supplies, and services necessary to run the business, bought from others (This includes coal for making electricity, gas and steam; also oil and supplies such as wire and cable)	$66,400,000
Taxes—money set aside from the year's operations for the support of local, state, and federal government . . . . . . (Taxes to federal government were $23,698,000; N. Y. State, $8,565,000; and local, $32,064,000)	$64,327,000
Security holders (whose money has built the property) received in interest on their bonds, and dividends on their preferred and common shares . . . . (Paid to holders of common stock $18,353,643; preferred stock $10,921,325; bondholders $17,718,643)	$47,000,000 *

The above were the four principal channels into which funds flowed as a result of the year's operation of the business.

* Since the plant investment of these companies is more than $1,250,000,000, the $47,000,000 paid to security holders represents an annual return of less than 4 per cent.

INCOME STATEMENT

	1942	1941
Operating revenues	$260,911,559	$261,267,545
Operating revenue deductions	194,180,107	194,094,025
Operating income (before federal income tax)	66,731,452	67,173,520
Other income or *loss*	24,553	*149,419*
Gross income (before federal income tax)	66,756,005	67,024,101
Income deductions	18,426,481	18,078,190
Net income (before federal income tax)	48,329,524	48,945,911
Provision for federal income tax	16,840,000	15,025,000
Net income	$31,489,524	$33,920,911

OUR TAXES must come out of the dollars you pay us. Last year 24½ cents of every dollar received by Consolidated Edison for gas, electricity, and steam went out for taxes.

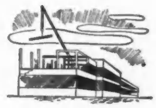
Our 1942 taxes were $64,327,000. Of this amount $29,957,000 went to New York City alone—enough to run the Police Department 5 months, or the Fire Department nearly 9 months, or the City Parks more than three years.

★

OIL FOR WAR. During 1942 a Consolidated Edison System Company, the New York Steam Corporation, closed 279 new contracts for steam service, most of these representing conversion from oil. This will result in an annual saving of more than 50,000,000 gallons of fuel oil.

★

WHO OWNS US? You, your friends and neighbors. Consolidated Edison stock is held by 136,119 men and women, churches, colleges, banks, insurance companies, charities, and public institutions. The average preferred stockholder has 70 shares, the average common stockholder owns 110.



NEW WAR CUSTOMER. One aluminum plant just constructed in our territory, when taking its full electric requirements, will be the largest single customer of any utility company in the country.

★

BY-PRODUCTS FOR WAR. At two of our gas plants we recover oil for immense production of toluol—the base for TNT—and benzol for aviation gasoline and synthetic rubber.

Support the Second War Loan Drive—"They Give Their Lives—You Lend Your Money"

SERVICE

CONSOLIDATED EDISON

SYSTEM COMPANIES

NEW YORK & QUEENS ELECTRIC LIGHT & POWER COMPANY · BROOKLYN EDISON COMPANY, INC. · WESTCHESTER LIGHTING COMPANY
THE YONKERS ELECTRIC LIGHT & POWER COMPANY · NEW YORK STEAM CORPORATION

The Dynamic Future of Common Stock Investment

(*Continued from page* 68)

of the Pacific Coast in this war will be repeated or allowed to be repeated by its inhabitants. Deprived of shipping by way of Panama, and of long-distance truck transport, it found the rails as necessary to assure its actual survival as they were in the days of the 70's! Fortunately, if the war has impaired the rolling stock of the rails, it has assisted their credit, and out of that combination of needs we shall have one more of the most necessary bases of recovery, that is, a profitable investment in new capital goods.

Another source of available capital is that floating mass of funds, that was rapidly moving from one country to another, as a result of the flight from tyranny. For the epoch from 1931 to 1941, the plague of managed and blocked currencies converted the citizens of the greatest European countries, from formerly sound business men and investors into hysterical thinkers, always anxious to fly and never to invest. This mass of floating and absolutely useless capital ruined confidence. It invariably fled in the direction of the few countries remaining with a sound fiscal policy and thus made them too verge on unsoundness, by giving them an incalculable fund with which to deal.

It is well known that foreigners, who have a fresh view, sometimes see opportunity where native citizens do not. The foreigner does not have our long memories of local discouragement. During the poorish stock markets of 1942 he was seen in Wall Street, steadily increasing his long-term investments. He anticipated recovery and domiciled his money here, in productive forms, for good.

Another impressive sum of money that is steadily seeking investment, and beginning to find it, is the "frozen" money of foreign states. This differs from "scarce" money in that it was a deliberate hoard, kept for political purposes in a country where it would be safe. France, for example, hedged its defeat, by maintaining the bulk of such resources in the United States.

This useless mass was an inflationary potential but of no productive use. But, already, the large, responsible, rich population of French investors have discovered America and show that they have every confidence in the future of profits here. These are important indications. When a decade of fear is replaced by a current of confident and active enterprise, we have the heralds of sound recovery.

In Brazil, for example, refugee capital has recently created a spate of new industries. We are as unaware of this immense change as the conservative European investor in 1850 was unaware of the development of the Mississippi valley, which proved to be the greatest field of capital expansion ever seen. These new Brazilian industries look to the United States for equipment, and arrangements have already been made, through our far sighted Treasury agencies, to encourage this redoubtable field for capital investment.

Consider the new field of colonial investment. This means the transformation of countries, once considered as mere producers of tropical plant products, into hives of local industry, constantly using and re-ordering American machinery and parts. That was how Britain built her Empire and her influence over quasi-colonies, like Portugal and the Argentine. Our government is pursuing the same tested path. That policy sustained the little island of Great Britain through two long wars that otherwise would have made a call on her last resources. Those investments have been sources of very life to Britain; other lands will be sources of that surplus of profits to our industries, over and above domestic profits, which constitutes an almost net gain.

The transformation of the foreign investor, in America, from pessimist to optimist is based on his experience of the rise of consumer consumption after the war. This consumer need is world-wide. The Morgenthau-White plan of the United States for International Recovery, provides a plausible means whereby countries, temporarily devastated and poor, may be built up into credit-worthy and sure paying clients. Britain, long ago, took the shaky and financially unreliable lands of the Plata basin and of China and developed a banking system that made them into priceless sources of exports and banking balances, and shipping payments. With the end of isolation, our economy will no longer be compressed into a small area for capital placement and the exaggerated effect of local disturbance to investment will thus be reduced.

There are those who argue that the return of ten millions from the armed forces and the shift of another seventeen millions from industry related to war needs, constitutes a shock too great to be easily taken care of. They look for mass unemployment, and a long period of Government aid in the demobilization period. The experience of 1918 to 1928 is overlooked. So is that from 1865 to 1873. As a matter of fact, apart from a slight difficulty, sometimes lasting for several months, unemployment often comes a decade after peace and not because of the shift of the armed forces, but rather because the fact that they were so easily absorbed, leads to overconfidence and thus to too buoyant speculation.

This time, this transition period is less likely to be disturbing than before. The Government, and private economic agencies, unlike the Wilson régime, have two hundred agencies preparing for post-war economic recovery. The Department of Commerce states that the ease with which our civilian economy was geared into war production will operate just as freely in reverse. Once corporations are released from war taxation (even on the basis of their previous earning power) one can calculate the increase of yield. On the basis of their augmented and modernized plant, the difficulty may rather be to restrain the unselective enthusiasm of the investor.

For the problem of selection remains as acute as ever. Such corporations as have not benefited by recent investment, and have not made up their capital depreciation, for example, will be severely handicapped in the recovery race. A later analysis will indicate the types of companies that are not comprehended in those profit potentials that will be true for the favored corporations.

The great fortunes of the past have taken on their stature mostly in war or in the recovery period after the war. The United States had almost no millionaires before the Civil War. Perhaps ten men commanded that much money. Certainly there were hundreds by 1870. The number of large fortunes (this time counted in the tens of millions) were rare in 1913. The Pujo committee report of that year showed a few grandiose fortunes, but not many in the next range. After 1918 these numbered the hundreds and millionaires the thousands, and the fortunes listed by the Pujo committee, had become international and were dominant in world finance. The United States, a debtor country at the outset, was a creditor country at its termination. It has never ceased being a creditor country.

True, its creditor economy was utilized badly. It directed its surplus funds to the reconstitution of a dangerous competitor—Germany—primarily, instead of to outlets for our own productive economy. It followed an unrealistic tariff pattern. Yet, the profits made upon that increase in national power were impressive in their dividend results, and consequent reinvestment made possible the great gains in production that will assure American victory.

It is not without significance to recall that the average annual savings of Americans were but 700 millions before 1914 and over 3 billions from 1919 to 1923. In the five-year post-war period before the "boom," bank clearings rose from an average of 160 billions to 380 billions and this includes the "deflationary" period of 1919-23. National wealth, estimated at 186 billions before world war I was 320 billions in 1922, also after the great deflation of 1920-21. The average price of industrial stocks, pre-war (1910-14), was $58, post-war (1919-23) $98. The rise in values exceeded the rise in the cost-of-living index by a wide margin.

But in no previous war have profit potentials ever approached the magnitude, or the piling up of optimistic factors, as in this one. The tripod of 1940-43 is without parallel. First, the surplus of savings over consumable goods is such that we know that once the goods are made available, they can be bought. Second, the accumulation of capital is estimated by some to be at eight times that of the former peak year, 1929, and this estimate seems soundly based. Third, the capital has been injected swiftly and cheaply into the corporate system and is not as yet apparent to the uninitiated. From this point on, the investor needs a specific analysis to guide him to those groups that have and have not these long-term advantages.

The New Age in the Glass Industry

(*Continued from page* 78)

Interest in the Plaskon Co. (soon to be extended to full ownership), should eventually lead to new sales peaks though taxes may retard increase in net earnings. Latterly the company began the fabrication of Plexiglass, a transparent plastic used in aircraft, under an agency contract with the Rohm & Haas Co. in Philadelphia, and also entered the field of demountable housing. Both these lines should have important future prospects.

Dislocations of War

The 1942 results clearly showed the impact of war-born dislocations. Sales figures were not revealed but manufacturing profit declined to $5.59 millions from $21.59 millions in 1941 while operating income shrank from $18.04 millions to $2.91 millions. Thanks to a corresponding sharp reduction of taxes from $8.14 millions to little more than half a million, there remained net of $1.85 millions against $8.82 millions in the preceding year. This was equal to $0.74 per share versus $3.52 in 1941. After deduction of the $1.00 dividend, a deficit of $62,000 was incurred.

Past earnings were relatively stable and dividends very liberal; in spite of the latter and substantial plant expenditures from current funds, the financial position remains excellent with cash of $3.91 millions, more than twice current liabilities of $1.67 millions. Working capital amounts to $14.75 millions compared with $12.96 in 1941. The common, yielding about 3%, appears only attractive on a long-term basis.

Owens-Illinois Glass Co., largest manufacturer of glass containers, on the other hand reported peak sales of $152.23 millions, an increase of 21% over 1941. Costs rose only 17% and total operating income mounted some 44% to $32.40 millions. Taxes rose steeply (210%), leaving net profits of $9.19 millions against $9.04 millions in the preceding year. This was equal to $3.46 per share versus $3.40 the year before. Total assets increased from $98.12 millions to $105.50 millions. The company's output of glass containers accounts for about 40% of total container production. While this represents the firm's major line, operations are diversified through manufacture of other glass products, also plastics, corrugated and wood cases, and certain metal containers. Through its interest in the Owens-Corning Fiberglas Corporation, the company participates in the development and future prospects of glass fibre.

This year's earnings should remain close to 1942 results and the quarterly dividend of fifty cents can be regarded assured. While demand will continue at peak levels, further important volume expansion is unlikely as facilities are already rather fully engaged. Securing adequate supplies of capping materials is also a problem, though latterly somewhat alleviated by successful adoption of plastics and other substitutes. Rising costs tend to offset economies from large volume and output standardization, hence no great change in operating income should be anticipated. In view of its strong basic position, the long-term outlook is definitely good and future earnings should be aided by further diversification efforts. While the anti-trust suit, previously mentioned, injects some uncertainty, the consequences of a final adverse decision are not believed to be of particularly serious import. The common, yielding about 3.4%, has attraction on a semi-investment basis and holds future possibilities.

A Stable Earner

Hazel-Atlas Glass Co. enjoys a well entrenched position as the second largest factor in the glass container field. While half of the total sales consist of food products containers, diversification is afforded by making containers for cosmetics, medicines, also fruit jars, table glassware and metal closures, bringing the total line to some 1,500 different items. The company has eleven plants, strategically located and by virtue of ownership of raw materials and fuel sources is in a position to exercise excellent cost control. 1942 sales reached the record high of $46.64 millions, an increase of 22% over 1941 when they came to $38.35 millions. Operating income rose to $9.93 millions from $6.64, taxes advanced 24.7% and net profits amounted to $2.47 millions equal to $5.69 per share compared with $2.88 millions or $6.63 per share in 1941. This is exclusive of a post-war refund of $521,000. A moderate earnings decline appears in prospect for 1943 but the $5.00 dividend should be maintained at least over the intermediate term. Container sales are expected to continue at peak levels but rising costs of labor and materials may offset the benefits of enlarged volume; the latter is dependent upon availability of manpower and allocation of certain critical materials.

Anti-Trust Action

The company's income from the Hartford Empire Co. since 1941 has been impounded by court order pending outcome of the aforementioned monopoly suit; about $2.80 millions are so far involved. Regardless of its outcome, it is felt that the firm's strong trade position affords adequate protection against any possible competitive inroads in the future. Over the longer term future earnings should fully maintain past stability with possibly gradual, if irregular growth as non-container lines are further developed. The financial position is excellent and dividends were extremely liberal since 1938 as requirements of funds for expansion remained moderate. There is no funded debt. The common, yielding about 5%, appears adequately valued in relation to prospective earnings and future potentialities.

As I See It!

(*Continued from page* 61)

the many. I have watched this phenomena most intently ever since I went to Russia in 1935, where I sought first-hand knowledge on the working out of the experiment in communism. As a liberal with an open mind and an analyst with many years of practical business and economic experience—and a deep interest in human progress — I was well equipped to draw sound conclusions. I came away thoroughly convinced that as a theory communism promised what it could never fulfill because it was psychologically unsound.

The people of Russia had merely exchanged one master for another. Instead of a czarist bureaucracy with its stupidity and cruelty, they were now being ruled by an equally despotic government, whose bureaucracy was of the same stamp, and equally as indifferent to the hardships and miseries of the people. In a word, the rulers of communist Russia were no improvement on those of czarist Russia.

However, there was one difference in the status of the Russian people—and not to their advantage. Under czarist regime the majority of the Russian people enjoyed the comforts of life, and luxuries, for out of 200,000,000 souls, only about 3,000,000 families could be classed as impoverished industrial workers and mujiks.

Under communist Russia the opposite was true. Only about 2,500,000, numbering bureaucrats and a specially selected minority, enjoyed decent food, clothing, housing and other privileges, while the great mass of the population which had declined to 160,000,000 had become the under-privileged class, suffering unbelievable privations. This after twenty years of Soviet rule. Two decades of Russians were sacrificed to the Moloch of impractical dreams.

Labor experienced a great setback in Russia. It lost its freedom—earning next to nothing—and was underfed, so that for years millions continuously died of starvation — something that had never happened under the cruelest czars. All the people, helpless and unable to use their own initiative, suffered tragically because of the ignorance of practical economics on the part of their rulers, and the inefficiency of these men whose experience in life up to that time had been purely that of propagandists. For Russia had killed off the brains and destroyed the wealth of the people in the revolution. Obliged to call upon outside help to reconstruct their country, they did not trust the men engaged to teach them to direct the work, but continually hampered their efforts.

The inept communist government had set about to industrialize a people unfamiliar with the use of, and awkward in the handling of, machinery, ignoring the fact that the country abounded in cheap labor that could have been put to work while the rehabilitation was going on and while the young people were being trained and mentally equipped for a mechanized age.

As a result, from 1919 to 1937 Russian progress was infinitesimal —with the standard of living at little above a subsistence level.

Progress began only after the principles of communism per se were discontinued — after the liberalization which permitted workers to benefit according to their capacity—when collectivism was discarded and replaced by cooperatives in agriculture. Later to insure greater success in Siberian development, the government went so far as even to permit free enterprise in far eastern key provinces. Still progress was very slow. The wild winters, which came early and lasted for months, made industrialization very difficult.

Finally when it became a matter of survival, the Russian government called in Albert Kahn of Detroit, Michigan, architect and genius, who solved the critical problem by working out a plan of construction whereby light buildings could be erected in the short space of a few weeks, so that the work of setting up the machinery could go on inside, protected from the bitterest cold. Only then did industrialization begin to take on substantial form, and with it hope for the Russian people.

As can be clearly seen, it took the genius of free citizens of the world, and internal liberalization to get Russia out of the tragic mess communism had gotten her into.

The purpose of the Internationale in this country, therefore, is misleading and dangerous to our welfare, and we must put a stop to it. So long as Stalin encourages it to go on with its nefarious work, we can only continue to distrust his motives, so far as the United States is concerned. The sly suggestions by his propagandists as to the vast potential power of Russian industrialization is to remind us of possibilities of Russian economic power after the war. Threat and coercion is not a sound basis for collaboration between allies. Instead of frightening us it only makes us wary lest it become a serious menace to our security, if instead of employing it to supply the needs of his own people, Stalin uses it as a weapon for economic warfare against other nations to satisfy his ambitions.

It is said that Russia expects the Nazis will have been defeated before the end of 1943, and underground movements all over Europe—including Germany and France—are being prepared for revolution that will make it easy to establish governments synchronized with Russia.

In the planning of a super industrial state it is reported that Russian realism calls for control of the industrialized areas of Europe, whether as part of the Soviet Union purely, or through political affiliations. In this way it is believed Russia hopes to be able to exert complete domination over the Continent. Stalin's 20 year treaty with Britain may turn out to be very helpful in easing Russia's path in this direction. While in Africa, leftist General DeGaulle's administrative control would place Russia in a strategic position vis a vis the European continent, South Ame[rica]

ica, as well as in relation to Spain and Portugal. It would insure free access to the Mediterranean and make the Black Sea a Russian lake. In such an event, the possibilities are that Russia will demand and receive an interest in the Suez Canal — which would give her easy access to every corner of the globe.

It can be seen from the above that as a result of this war, Russia stands to realize in one fell swoop the wildest ambitions of her czarist empire builders. But Stalin's underground movements are reaching out even more ambitiously. His plans seem to include political and economic domination of the whole world.

Stalin has become the disturbing factor in the plans for a stabilized world after the war. His unwillingness to collaborate or cooperate to that end has hindred our efforts and confused our purposes. Although we are bound by our mutual interest in crushing Hitler, Stalin's attitude and activities make us feel that we are not solving the problem by destroying Hitler if Stalin is to take his place. And we have no desire to take part in creating another Frankenstein monster. Situated as we are, we cannot ignore a dictator who would be powerful in both Europe and Asia.

There is much we can do to solve our problems. The truth is that collaboration with the United States is necessary to Stalin if he is to emerge victorious from his war with Germany. A realistic appraisal of the Russian position in relation to Germany tells us that contrary to propaganda threats, Stalin would be cutting his own throat to make a separate peace with Hitler, whose avowed purpose is to gain control of Russia in order to exploit it.

Under the circumstances, our government is in a position to initiate and insist upon such commitments from him as will assist us in the present task in hand and not shadow it for the future. Fortunately, a basis exists in Stalin's open avowal of adherence in his speech of November 6, 1941 in which he said:—

"*We have not nor can we have such war aims as the imposition of our will and our regime on the Slavic and other enslaved peoples of Europe who are waiting for our help. Our aim is to help these peoples in their struggle for liberation from Hitler's tyranny and then to accord them the possibility of arranging their lives on their own land as they think fit, with absolute freedom. No interferences of any kind with the domestic affairs of other nations!*"

Since the fall of Stalingrad, we have learned more about Stalin's capacity to fight a war against Hitler than we did before when the demands to open a second front were coming fast and furious. When the German retreat began, Stalin disavowed his allies and his propagandists boasted that Russia was fighting this war alone with weapons of her own manufacture and not with lend-lease supplies. They claimed a terrific production back of the Urals that could supply their every need, and even recently hinted broadly that a special force of at least three million men fully armed with supplies and munitions were being held in reserve to insure a peace favorable to Russia after the war. If this is all bluff to gain special advantages for Russia, it is very foolish indeed, since it does not make for good relations even among those who know what its purpose is. It may have the effect of creating an opinion that Russia does not need lease-lend materials and since we are aware that it is important for Russian survival that she defeat Germany on her own account, just as it is necessary for the United States to defeat Japan, this foolish boasting may result in demands that supplies designed for Russia be diverted to the Pacific.

The sending of huge quantities of *matériel* to Russia is a very hazardous and costly undertaking at best.

Today, as events have developed, collaboration with the United States is vital to Russia. On the other hand, the cooperation of a *victorious* Russia is vital to the economic security for all in the post-war world. A conference between President Roosevelt and Joseph Stalin would do much to clear the air.

The fact is that the trend is away from communism towards democracy. As a result of this war we are reaching the climax of the upsurge for liberty which began with the French Revolution. This force is now seeking to balance itself and is acepting democracy as the middle-ground. Stalin should revise his ideas and plans if he is not to be left behind in a maze of outdated thinking.

Another Look At . . .

(*Continued from page* 96)

equal to $1.70 per share compared with $2.52 millions or $1.87 per share in 1941. Actually, the company did considerably better than these figures would indicate. Charged off against last year's operations were several extraordinary and non-recurrent items such as $1.16 millions for payments made to cancel or modify certain guaranteed leases, $500,000 provision for possible losses incident to planned post-war reconstruction of retail chain stores and $300,000 additions to reserves.

There was also a tax credit carry-over of $700,000. Properly adjusted, earnings for the year actually came to $2.15 per share which, it is believed, gives a better idea of the company's earning power. Net sales in 1942 increased 19% to $121.99 millions, continuing the sales expansion under way since 1938. Operating income was $12.67 millions against $7.80 millions in 1941 but this gain was offset by sharply higher taxes which rose to $5.14 millions from only $1.62 millions the year before. The company's financial position was further strengthened; cash holdings increased to $12.10 millions from $7.51 millions and net working capital at the end of the year stood at $29.95 millions compared with $28.38 millions at the close of 1941. Equity per common currently amounts to about $11.49 per share. To conserve funds, resumption of common dividends was again postponed.

Which Stock Groups Will Lead? Which Lag?

(*Continued from page* 87)

equipment companies, too, like Pullman, are in the best working capital position in years. The rails have come back into favor. They are no longer thought worthy of neglect, a sort of delayed horse and buggy situation. Now they are considered the backbone of national defense. The submarine has shown the perils of coastwise shipping. The airplane is as yet undeveloped as a mass carrier of freights, especially heavy freights, and its cheapening to the extent of competition with the rails is today only a romantic idea. Interstate truck traffic was found adequate as a supplement, but it has largely been most economical where the rail has been least economical, that is, on short haul, so that its competitive position has been over-rated. Once the rails have to be modernized, we are likely to see a volume of orders for reequipment that has not been witnessed since the rails were the prime investments of the country.

It is apparent that the turnover from war to peace production for the rail equipment companies will not be costly. Individual situations like American Car and Foundry where financial arrangements with the Government are a large part of the picture, are, of course, not completely relevant to the main industrial picture. But, as a group, for long-term investment, the market neglect, relatively, of this group, is not justified. In 1941, for instance, when rail earnings notably improved there was a sharp increase in new freight car and locomotive orders.

Paper stocks have not only been laggards: they have rarely been anything else. They have sometimes shown remarkable market recoveries as in 1941, but, as an industrial group, they have more often disappointed investors. Specialty stocks like Scott have proved exceptions, but, on the whole, the industry has done little to enjoy continuous stock market popularity. It has not been a war beneficiary.

Printing and publishing, however, is enjoying a revival, the book trade being especially remarkable. Government orders of paper have been impressive. But, as a whole, the trade has not shown an upswing. Certainly Kraft papers for wrapping have done poorly. Daily newspaper space has not increased: a seller's market diminishes the use of the daily papers for immediate retail bargain advertising.

The rationing of paper has set definite limits to consumption: relative price stability to profits. On the other hand, the payroll costs have tended to rise. Despite these unattractive aspects, the paper stocks, while offering no exceptional prospects, are too much in disfavor. Labor and shipping shortages, post-war Scandinavian competition, possibility of further rationing, have limited buying enthusiasm for the group. But what is impressive about the pulp and paper industry is the consistent, sound, upward trend of earnings, or improvement in capital structure, since 1937, both in peace and war. The Scandinavian competition is scarcely to be considered in view of nearby European need for that production, after the war. Further rationing will not be drastic, and certainly will not be sufficient to reduce net profit (after taxes) by any appreciable amount. While it is true that there is no prospect of any important upturn in earning power, either present or prospective, nevertheless, relative to the market, the stocks are cheap. Their drawback, however, is that because there are no early advances in earnings in sight, their market popularity is limited. They have lagged behind market performance on the upswing and their possibilities remain moderate.

The comparative investor neglect of farm equipment stocks is difficult to explain. Perhaps the lesser proportion of their profitable export trade in pre-war years and the long period of deficient farm income, together built up a resistance against the stocks which has not yet been overcome by the wholly changed situation. The farm income of the United States is at a peak in any terms, whether cash or purchasing power. The partial conversion of farm equipment plants, to war production, means that this enhanced buying power must go without a proper supply of tractors and combines. True, the maintenance of farm equipment has been assisted by permitting parts and accessories to be manufactured more than in normal times, but the slack in farm buying remains, nevertheless, larger than at any previous period.

The most significant aspect of trade, though, should be in the export field, which, after the last war, provided the farm equipment manufacturers with their most sizable profits, and was equal to fully a fourth of their production.

The impoverishment of Europe has gone much further in this war. The reequipment of farm economy is always the first object of reconstruction governments. Countries like Australia are almost wholly dependent on the United States for this type of import. Germany, the leading industrial producer in Europe, has never specialized in this product. Russia's production will be fully required for her own use and it seems likely that she may be as important a buyer as she was in the early 1930's. Dollars income, which in 1941 had advanced to 750 millions, may pass the billion figure in the immediate post-war years.

A more topical aspect is that of the international food conference soon to take place at Hot Springs, Va., and in which it is proposed to formulate specific plans for post-war food production on a world scale. The United States farm equipment companies, as the foremost producers, can look forward to substantial benefits from this meeting and make plans therefor. Financially, however, farm equipment companies vary widely; low-earnings ratio stocks of well managed companies are the best long-term commitments.

Investment Audit of Southern Railway

(*Continued from page* 81)

Excluding these 4 years, coverage has been rather satisfactory. Combination of better trend of earnings since 1935, favorable secular trend, progress of the debt reduction in the immediate past, and likelihood of its continuation over the immediate future all lend speculative flavor to these junior bonds. These junior bonds were among the most attractive second grade bonds recommended by us in our February 6, 1943 issue, at which time the Development 4's were selling at 72. While they have advanced somewhat, to levels of 77 at this writing, these bonds still appear to be attractive and in our judgment possess possibilities of further appreciation, without taking into consideration probable additional company purchases in 1943.

There are 600.000 shares of the $5.00 non-cumulative preferred stock outstanding, and because of the non-cumulative feature, the stock possesses virtually no advantages over the common. Ten-year average earnings on this stock amounted to $3.59 per share. If we eliminated the period 1932 to 1935, average earnings were in excess of $10.00 per share.

Were the issue cumulative, the stock would be entitled to a much higher rating, since as conditions now stand, the preferred has gone throughout the depression without a dividend, and now that the Company can look forward to better days it will be limited in sharing in any future prosperity to the extent of $5.00 in dividends.

In our judgment, the common stock at levels of 25, offering a yield of 8% on the basis of a $2.00 dividend now being distributed, offers much better possibilities than the preferred especially as the issue possesses considerable leverage. There are only 1,298,200 shares of this stock outstanding.

First Quarter Earnings Disclose Divergent Trends

(*Continued from page* 71)

—proved quote profitable, though whether that will permanently be the base is less sure. Net is officially estimated at $1.08 per share for the quarter, compared with .69 cents a year ago. This is not typical of the industry. Most companies will show less earned than last year.

What happened to Savage Arms, indubitably a "war stock"? Net for the first quarter was only 32 cents a share, against 74 cents a share in the first quarter a year ago. No sales or tax figures are available at this writing. One imagines there must have been plenty of contract renegotiation —or perhaps some contract cancellations. It is no secret that some types of arms and munitions have been over-produced.

We shall have a concluding article in this series on first quarter earnings in our next issue, with more statements available.

Soft Drinks Versus Liquor Stocks

(*Continued from page* 95)

about 70 gallons per share as against an estimated 27 for National Distillers. At $36 it is selling at about 8 times anticipated earnings, whereas National Distillers at 30 sells at 9 times. On an assured yield basis, of $2 in dividends for National Distillers, and a variable dividend policy for Schenley, which may retain a $1 basis or exceed it, the income seeker may, rightly, prefer National Distillers. But on a three year liquidation basis of inventories, his dividend preference may be found to be based on past rather than future situations.

The Canadian Companies, Distillers - Seagram and Hiram Walker, present similar features. Sharp upcurves in 1942 sales and earnings were characteristic of both. Higher taxes and costs in both were cancelled by the increased sales volumes. However, as the future depends on a restricted rate of release of inventories, the large ratio of debt to common stock in the case of Hiram Walker diminishes its attraction; although present inventory may work out at nearly 40 gallons per share. Distillers-Seagram inventory position is nearly as good: the proportion of blends to straights, though, is not equally clear.

It is obvious that the liquor stocks, after their last year's rise must be viewed with caution. Stocks in a liquidating situation, plus an overemphasis on war earnings whose net results are unpredictable, together with a post-war gap in continuous supply of products as a serious possibility, can only be recommended on market recessions. At that point, the yield, in the case of Distillers - Seagram, Hiram Walker and National Distillers, and the equities built up, as with Schenley, would be fairly attractive. But progressive soft drink companies are in a much better basic position.

Are Utilities on the Way Back?

(*Continued from page* 74)

(it owns the entire second preferred and a substantial amount of the common stock of that company). EL preferred is a popular trading stock in its class and seems reasonably priced at about four times consolidated earnings.

We have included in the table AMERICAN SUPERPOWER SECOND PREFERRED as a sample of the "dynamite" or high leverage utility issue. It will be noted that this stock is currently selling at four times last year's high and eight times the low. Technically the company is not a holding company and is free of SEC restrictions. When the first preferred is completely retired, the second preferred will acquire greater merit; until that time arrives (the retirement program has progressed slowly for many years) the stock will continue to fluctuate violently.

Watch the World Go By—

(*Continued from page* 75)

industrialists who fear a flooding of the Indian market by British industrial goods.

While India may be on the threshold of new industrial expansion of far-reaching influence upon the country's economy, there are, nevertheless, clouds on the economic horizon. One of them is the inflationary rise of prices. The Indian wholesale price index advanced nearly 130 per cent between the outbreak of the war and last November (see table). While the cost of living in Bombay rose over 70 per cent in the same period.

The price rise, which has been particularly steep since the war in southeastern Asia started, has been due partly to the ineffective regulation of prices by the Central and Provincial Governments. A highly important factor has been the shortage of such essentials as rice, sugar and other foodstuffs normally imported either from Burma or the Netherlands Indies. The price of domestic rice more than doubled during 1942, the poorest classes suffering most. Transportation difficulties within the country have also interfered with supplies and have led to local shortages of salt and kerosene. The Government is now trying to induce the farmer to grow smaller crops of jute, cotton and oilseed, and to concentrate instead on growing more food.

The inflation that is taking place is shown in the rapidly expanding volume of the notes in circulation, now nearly four times as large as in September 1939 (see table). Apart from reflecting greater purchasing power and higher prices, the notes have been replacing silver rupees which, since the threat of Japanese invasion, have been disappearing into the peasants' hoards, and even the notes themselves are evidently being hoarded.

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